

THE HOUSING CHOICE AND COMMUNITY
INVESTMENT ACT OF 1994

Y 4. B 22/3: S. HRG. 103-672

HEARINGS

The Housing Choice and Community In... FORE THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

AND THE

SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

IDENTIFYING THE NEEDS OF OUR NATION'S CITIES AND TO EXAMINE
THE ADMINISTRATION'S PROPOSED AMBITIOUS AND COMPREHENSIVE
AGENDA TO REVITALIZE COMMUNITIES AND CREATE REAL OPPOR-
TUNITY FOR RESIDENTS

APRIL 28 AND MAY 3, 1994

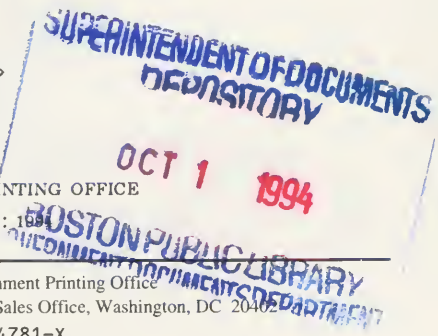
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THE HOUSING CHOICE AND COMMUNITY INVESTMENT ACT OF 1994

THURSDAY, APRIL 28, 1994

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met in room 538, of the Dirksen Senate Office Building at 10:15 a.m., Senator Donald W. Riegle, Jr. (Chairman of the Committee) presiding.

OPENING STATEMENT OF SENATOR DONALD W. RIEGLE, JR.

The CHAIRMAN. The Committee will come to order.

Let me welcome all those in attendance this morning. We want to especially welcome Housing and Urban Development Secretary Henry Cisneros again before our Committee.

I want to acknowledge the presence of a number of daughters who are here today with their parents, starting with my own daughter, Ashley, and Sara Murray, who is here with Senator Murray, and I see some other young women who are here with either their moms or dads, and we're just delighted that all of you are here with us today.

What we're going to be talking about today is the whole question of housing policy and housing opportunities in America because we all know how important it is to have a nice home to live in and hopefully to own your own home. Many people aren't able to do that. They don't have the money or life has worked in such a way that they haven't had the kind of opportunity that maybe the rest of us have had.

We spend a lot of time in the Government trying to figure out how we can make it more possible for more people to be able to have the chance to buy and own a home of their own, and to have all of the pleasant things that can come from that in terms of just allowing the kind of family life that isn't quite as possible in other ways if one doesn't have the chance to own a home.

This morning, the Committee is going to focus on reauthorizing the Housing Choice and Community Investment Act. It's very important that Secretary Cisneros start with us today and lead this important process and discussion and decisionmaking and to present to us the Administration's priority for addressing the needs of our Nation's cities.

The needs of our communities are great. Certainly, the rates of poverty, the high unemployment, the crime problems, the continuing patterns of disinvestment in many communities, high rates of school dropouts, high rates of teen pregnancy, and drug use are all

manifestations of serious problems that are in communities. These problems, in almost every instance, are still worsening.

I want to commend President Clinton and Secretary Cisneros for their commitment to improve the lives of people living in our distressed communities.

Within the last year, the Committee, along with the Administration, have also shown their support for helping these distressed communities by enacting the HUD Demonstration Program of 1993 and Multifamily Housing Disposition Act of 1994.

As Chairman of the Senate Banking, Housing, and Urban Affairs Committee, I was pleased to introduce, by request, the Administration's Housing Choice and Community Investment Act of 1994—S. 2049.

This bill sets out a comprehensive and ambitious agenda to address many long-neglected needs. Underlying the proposal are the Secretary's priorities to reduce homelessness, improve public housing, to expand affordable housing, to enforce fair housing, and to further empower communities to strengthen themselves.

The Administration's housing reauthorization proposal overhauls many existing programs and creates several new initiatives. It proposes to consolidate several existing homeless programs into a single and simplified program.

The bill will improve our public housing stock through a direct loan program to modernize and replace units by rent reforms, merger of existing programs for severely distressed housing, and the creation of an anti-crime program, all things that are needed.

I salute the Secretary in all of these areas for his leadership and initiative.

The Administration also proposes to expand the supply of affordable housing through broadened home ownership. The bill will also give HUD new tools to enforce fair housing and to try to deal with continuing problems of housing discrimination based on race.

Finally, the Administration's proposal will empower communities through broadened economic development. All of us in the country are very excited about the process that we're now in the midst of regarding empowerment zones and enterprise communities. I know, within my State of Michigan and out across the country, there's great enthusiasm and a new sense of hopefulness in communities as they put together plans to compete for these highly sought-after designations and for the help that these designations can bring to those communities.

I know, in my own home State of Michigan, my home city of Flint is pursuing that initiative very actively, as is the city of Detroit, and I want to say, Mr. Secretary, I appreciate the efforts that the Department has made to come out and to meet with communities in Michigan and across the country to really help them understand the process of application, what the criteria are, and so forth, as to how they can maximize their chances of winning and succeeding in that competition.

And I know I'm particularly hopeful with respect to Detroit's prospects because it has become such a terribly distressed community in terms of all the problems that are whipsawing that particular area of my State.

During the 5½ years that I've had the chance to serve as Chairman of this Committee, I've tried to keep the focus on the underlying causes of urban decay: the lack of jobs and the lack of economic opportunity.

We've also tried to focus the Committee to make our existing programs more useful in promoting economic development, as well as to develop new tools to generate activity where little or no market forces are presently in existence.

I applaud the Administration's efforts to empower communities and will continue to work to promote neighborhood-based development, and, as I say, the full implementation of our empowerment zone and enterprise communities initiative.

I also want to stress that a top priority of this Committee is and will continue to be the Home Investment Partnership.

I am concerned that the Administration has proposed a 22 percent reduction in funding for HOME as part of the fiscal year 1994 budget. This Committee spent more than 4 years working with housing leaders across the Nation to craft a program that is flexible and will meet our future housing needs.

Recently, the Secretary stated that the spending cut was attributable to home spend out rates which are slower than desired. However, I believe the situation can be improved through administrative actions designed to make it easier for localities to actually spend their money usefully.

I believe the Administration needs to do all it can to make the program work efficiently before proposing any cuts, and I would ask the Secretary to explore this proposal.

We look forward, Mr. Secretary, to your testimony today, and to working with you.

I want to say the Chairman of the Housing Subcommittee, Senator Sarbanes, who just arrived, and I think had to take a call and will be back in a moment, has been really extraordinary in terms of leadership he has given over a long period of time and at the present time in this area, along with other Members of the Committee who are working on a bipartisan basis to develop a Housing Reauthorization package that will command broad bipartisan support.

Senator Murray, let me call on you, and then we'll go to Senator Sarbanes and then to the Secretary.

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Thank you, Mr. Chairman.

I join you in welcoming the Secretary here today to talk about a very important issue.

Before I do that, I want to introduce my daughter, Sara, who's here with me today, and three of our friends from Seattle, Washington, who have traveled 3,000 miles today to find out what it's like to be a U.S. Senator.

They are finding out rapidly. We've been to two breakfasts, several meetings, and this hearing. They're still on west coast time as they got in last night, so if they fall asleep behind me, it's not because you're not interesting, Mr. Secretary.

I know you have visited my home town of Seattle, as well as Tacoma, several times, and I know you agree with me that they are

beautiful cities. We are seeing a great deal developing under that beautiful exterior with increasing youth gang violence and increasing problems of homelessness and poverty. These are crises in our communities that we have got to deal with, so I especially appreciate this opportunity to hear the Administration's proposal.

I think it's especially timely, as we sit here today with our daughters, here in this Nation's capital, to send them not only the message that they can go out and be whoever they want to be, but also that those of us who sit in the Senate are working to make sure that their communities and their homes are safe.

I appreciate this opportunity and, again, thank you for being here.

The CHAIRMAN. Senator Sarbanes, I indicated, when you were out of the room, what a tremendous job I believe you've done in spearheading the housing efforts within your Subcommittee here on the Full Committee, and are continuing to do with respect to the matters before us today. I appreciate that very much, and would like to call on you.

OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Well, Mr. Chairman, I appreciate those comments, and I regret very much that I was out of the room.

[Laughter.]

Maybe it got taken down for posterity somehow or other.

I'm pleased to join with you and Senator Murray in welcoming Secretary Cisneros before our Committee today.

As I've indicated on past occasions, I regard him as one of the lead people in the Cabinet, and I think he's put together a very good team at HUD and we're very pleased. In fact, I think HUD may have been the first Department, or one of the first two Departments, to get all of its appointments that required Senate confirmation, confirmed and into place. I commend the Secretary for moving in that regard.

We're also pleased to have an Administration and a HUD Secretary who's reinvigorating the Federal role in housing and community development.

This year we need to do the major reauthorization of all the housing programs, and the introduction of the Housing Choice and Community Investment Act of 1994, starts that reauthorization effort.

This legislation reflects the Administration's priorities, with a strong emphasis on reducing homelessness, on turning around public housing, expanding affordable housing, enforcing fair housing, and empowering communities. I look forward to working with the Secretary and the Administration in order to address these priorities.

Let me just make this observation because it happened without a lot of attention and fanfare. We didn't have any bill signings or anything of that sort, but over the last 15 months, Congress has enacted two significant pieces of housing legislation. And, we were able to do it in an expedited fashion. We had bipartisan support. I want to express my appreciation to Senators Bond and D'Amato and others on the Republican side of this Committee.

Our actions do have an impact at the local level. I was listening to Senator Murray talking about the problems they're confronting in the State of Washington. Of course, we always have to keep the local perspective in mind.

The Multifamily Housing Property Disposition Act, which we've just put into place, will save the taxpayers hundreds of millions of dollars by reforming the way in which HUD sells properties it owns.

In my own State, in Prince George's County, for instance, the new Act will allow HUD to sell a distressed property that has stood vacant for several years blighting the neighborhood, and this bill will give the nonprofit purchaser of the project, who's been lined up, an opportunity, working with HUD, to turn that project into decent homes for local families.

The Property Disposition Act also made some important changes to the HOME program that will help to get those funds moving more quickly to support affordable housing throughout the country. Let me just give another local example of that.

In Montgomery County, Maryland, the county just held the groundbreaking for the Brookside Glen Development, a mixed-income rental housing project, close to the Metro, close to a major regional park, and close to good shopping. Half of the units in that development are affordable to low-income people.

This affordable housing project could not have taken place in such a good location, again, close to Metro, close to shopping, and close to recreational facilities, without the use of the HOME funds to fill the financing gaps that otherwise would have existed.

In the HUD Demonstration Act of 1993, the other important legislation we passed, the Congress authorized the Secretary to test out promising new approaches to solving the problems of homelessness, to encourage prudent and safe pension fund investment in affordable housing, and to build the capacity of community-based nonprofit housing providers.

That latter program, known as the National Community Development Initiative, will enable nonprofit groups working in Baltimore in the Sandtown-Winchester neighborhood—to which, in fact, the Secretary makes reference in his statement today—to continue to expand the excellent work that nonprofit groups are doing there.

I mention this legislation because it reflects the Secretary and his team moving quickly to gain some additional tools to address our housing needs. The response of the Congress to that effort, has been an expedited response. This level of activity makes a difference, a real difference, in people's lives.

Since his arrival at the Department, the Secretary has demonstrated great energy and vision in putting forth an agenda to improve HUD's management and to get HUD moving again. I think we all strongly support him in his efforts to restore HUD's credibility, to leverage new resources, and to strengthen partnerships with other levels of Government and with the private sector—both profit and nonprofit.

I look forward to this effort now to shape a reauthorization bill this year.

Mr. Chairman, thank you very much.

The CHAIRMAN. Thank you very much, Senator Sarbanes.

Mr. Secretary, again, welcome back. You reminded me that you were here exactly a year ago and we were here with our daughters on that particular occasion, and you've been kind enough to celebrate that anniversary by coming back again today.

So we'd like your remarks now.

STATEMENT OF HENRY G. CISNEROS, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC; ACCOMPANIED BY: MARSHA DODGE, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC; AND JEANNIE ENGEL, DEPUTY ASSISTANT SECRETARY, FEDERAL HOUSING ADMINISTRATION, WASHINGTON, DC

Secretary CISNEROS. Thank you, Mr. Chairman.

It is a special day. I vividly recall it because I looked across here and these young ladies were here last year, and it was a special moment then. It's an indication of the immense possibilities for women in our society today. I'm very proud to say that the Federal Government is one of the institutions that's changing most dramatically of any in society when we have a First Lady who plays the role that Hillary Rodham Clinton plays in the Nation's life, whether it's on policy questions or as a role model, admired by millions of Americans, tens of millions of Americans.

When I look across the Cabinet room at Cabinet meetings, and see Donna Shalala as the Secretary of Health and Human Services, and Secretary O'Leary, and Madeline Albright, the United Nation's Ambassador, and Carol Browner, the head of EPA, the Attorney General, Janet Reno, the first woman to serve as Attorney General of the United States, and bringing her own special interpretation to that job, Laura D'Andrea Tyson, the first woman to head the Council of Economic Advisors, it really is a marvelous thing.

And then, beyond the highly visible secretarial level persons, are generals in the Defense Department and women now flying combat aircraft, astronauts, physicians in the key departments that deal with medical care, and researchers doing some of the most pioneering research in the country, and judges in the judicial system. It's a wonderful development.

I have two daughters myself. One of them is in college on the west coast and the other one is preparing for law school, and could not be with me today. But, as a father of young women, it's an inspiring thing to see the possibilities that have opened up in our society.

I wish these young ladies very well, knowing that certainly in the time of their career span, and hopefully sooner, there will be a woman President of the United States. I have every confidence and expectation that that will occur.

The CHAIRMAN. She may be in the room today.

Secretary CISNEROS. She may be in the room today. That's right.

The CHAIRMAN. I might just, having interrupted you, also say that we've just nominated a woman to serve as the U.S. Marshal in the Western District of Michigan, so that's another barrier taken down, and we're very proud of that.

Secretary CISNEROS. Thank you for giving me the chance to share with you a sense of our Housing Choice and Community Investment Act of 1994.

What I would like to do is to depart from the prepared text and really talk to you for just a few moments using two aids. One of them is a document, which you have in front of you, U.S. Department of Housing and Urban Development Top New Initiatives which describes the Act, and to intersperse that with comments from the charts which will allow you to make a connection between the authorizing vehicle we are proposing and the budget or appropriations dimensions of it, because these things are completely interrelated and, to an unusual degree, our initiatives for the new year require action on both fronts.

So with that, I'd ask you to turn to page 4, if you would, of this document that you have in front of you, and if you don't have copies, we'll get copies for you, if they're not easily available to you, because they allow us to walk through the key provisions of this Act in the priority order that we have set them out.

Let me just say, with respect to the budget, at the outset, you'll see that HUD's budget authority increased by about \$1 billion this year, and outlays increased by \$2 billion. That makes us one of only seven Federal Departments that actually increased its budget from last year to this year in the Administration's proposals.

It speaks to the President's commitment to domestic priorities and particularly to rebuilding communities, so you see substantial increases, especially in light of what were proposed to be cuts, at least in the rumors and newspaper stories that preceded the release of the budget.

The next chart begins by describing our priorities. You have stated them. I won't dwell on them. But our priorities are to reduce homelessness, turn around public housing, expand housing production and focus on affordable housing with an emphasis on home ownership, to ensure fair housing for all Americans, to help communities revitalize themselves, and to put in place the management systems necessary to make all of this happen.

Now, let me go through these priorities, commenting on both the budget and the authorizing proposal.

The Housing Choice and Community Investment Act of 1994 requests support for the doubling of Federal support for homeless assistance initiatives.

More than \$1.7 billion would be authorized for fiscal 1995 which is an increase that virtually doubles, as you can see there, from some \$823 million last year to \$1.6 billion this year in homeless programs.

The authorizing language would allow us to focus on creating a new approach to homelessness, essentially by combining many of the McKinney programs, reorganizing them to give local governments the power to design and implement comprehensive strategies.

In short, succinct terms, what this means is grouping up the McKinney programs that are presently very specialized. One can apply for money for emergency shelter or for drug addiction or for permanent housing, but it's very difficult today, under the present scheme, to put together a comprehensive initiative.

This is about doubling the money available, but it's also about changing the way we do business where homelessness is concerned.

One of the most important pieces of this, and I'll go on to the next priority, one of the most important pieces of this is the Section 8 Rental Assistance of \$514 million which, for the first time ever, would make it possible for us to use vouchers or certificates to give homeless persons the opportunity to live where they want. This will focus on homeless families.

Mr. Chairman, the experts tell us that the fastest growing segment of the homeless population are families with children. They end up, not on the streets, generally; you don't see a lot of children on the streets, but in the shelter systems. They are invisible in that they're not visible to the public, they're in the shelter systems. But shelters are no place to raise children. They're not private. The hygiene facilities are frequently not up to par. Raising a young woman in a shelter setting is inappropriate.

The experts also tell us that with 15,000 vouchers, which is what this allows us, or certificates, we could move that many homeless families into permanent housing, which is, we think, an important—this is our very, very highest priority. If other things have to fade in this budget or in this authorizing language, we need this initiative to take families out of shelters.

The second priority is to turn around public housing. Here you see some numbers that we're not particularly proud of, but in the budget deficit reduction setting, as we tried to increase homelessness, we had to take it from somewhere else. The key here is we're trying to do things differently.

We're asking, for example, that modernization funds, which have traditionally been available only for modernization and rehabilitation, be made available for replacement. Right now, we're taking modernization funds and putting them into some of the very worst public housing which, by commonsense terms, would be replaced, it would be demolished and it would be replaced. We can't do it with remodernization funds today. So we're asking for that authorizing change in order that we can do this.

In addition, we want to do things, as I say, differently. We want to make work pay for housing residents by changing the rent rules. Making it possible for people to be able to work and their rent not go up, so we have more families who will work in public housing.

This would solve two different sets of problems. One problem is the fact that in many public housing settings today, no one works. It is entirely possible to go through a huge public housing development and find not one single family where a person works. This is a terrible role example for children and so forth, and, as a result, we feel very strongly that it would be important to create the settings where people can work.

Ten years ago, persons in public housing had a median-income of about 38 percent of the area median. Today, that is 17 percent, because our preference rules have been giving more and more preference to the very, very poorest. That's certainly well-intentioned, and those very poorest deserve housing, but it has created a concentration of pathologies with people who are not working, people who are exceeding the low-income that bring all of the problems associated with the worst property and no role models or other persons in those settings.

So we believe it's important to change the disincentives that are inherent in the present rent system and try to return to some reasonable mix of incomes. It's not that we want to bring people with higher incomes in; that's not it at all. It's that we want people who are presently in public housing to be able to work so their incomes rise, and in the process, we create a mix of incomes with the people who are there now.

It also would enable people to begin to save some money so that public housing can be the transitional experience it was always designed to be. It was never intended to be a final stopping place for generations of persons. It was intended to be transitional and that requires some income coming in so people can save some money and move onto assisted housing and hopefully home ownership.

We're asking for that kind of focus.

This bill also will promote jobs for residents by really enforcing section 3 of the 1968 Housing Act that will ensure public housing residents share in the economic benefits of the massive sums of money being generated for construction and services contracts and modernization. And this bill also, in the area of public housing, requests funds for fighting crime, the so-called Community Partnership Against Crime or COMPAC initiative.

This gives you a sense for where all the pieces fit together. Obviously, we wish we had enough money to increase every single line item and category of HUD's budget, but the truth of the matter is that in some areas, we have to do things differently, and we need the flexibility to put money into new areas.

Priority three focuses on expanding affordable housing. It puts FHA back in business. FHA had a very good 1993, some 400,000 new homeowners in the first-time-homebuyer category.

Among the things that we're asking for in the authorizing language would be to raise the maximum FHA mortgage amount from \$152,000 to \$172,000 in high-cost areas. Some would suggest that this is not a good thing, that it would allow FHA to focus on something other than the low end of the market but, as you know, the FHA funds are required to be self-sustaining, and if we're able to work in this range of the market, which is middle class housing in California and the east coast, then the funds can remain sufficiently healthy that we can focus on the lower end of the housing market, as is our mandate.

We are going to put a tremendous emphasis on home ownership and the new Act would allow us to make no downpayment-financing available to low- and moderate-income buyers through a new home ownership trust initiative.

We're asking for \$100 million through the Homeownership Trust Fund for downpayment, closing costs, second mortgage assistance, and other help for first-time homebuyers. We believe 1994 and the next several years can be not only years in which we turn the decline of the home ownership rate around, it's been going down for the last several years, for the first time since the end of World War II, we've actually had a lower home ownership rate because of the deemphasis of FHA in the previous Administration, and we believe that we can not only take that negative curve and bring it back positive, but actually have some record-setting home ownership years over the next several years.

And this Act, as well, would foster the continuation of partnerships. Some \$500 million to leverage pension fund and other private and public investment in affordable rental housing.

You helped us last year pass special legislation that enabled us to allocate \$100 million to try to create partnerships with pension systems. That is going so incredibly well. We have over 400 applications for partnership relationships that will take that \$100 million of Government money and produce \$1.2 billion, 12 times the housing product as the original \$100 million we put in. Partnerships have been so successful that we want to increase them 5-fold in this budget.

Those are some of the aspects of the FHA priority.

Our fourth priority area is to enforce fair housing. The Act would significantly expand funding for State and local governments and nonprofits that assist the Federal Government in enforcing fair housing and fair lending laws. You see substantial increases in the fair housing enforcement. You see a request for funding, as well, for metropolitan-wide strategies, such as the Moving To Independence effort, and others that have been at work already.

And this Act would overhaul the Section 8 Rental Assistance Program to give low-income families a meaningful opportunity to choose where they live throughout a metropolitan area.

You see there \$149 million, 20 times the current funding level, for counseling, for housing search assistance, and other services. All of the experts in this field tell me that without counseling, and intensive counseling, real, practical counseling, we're simply not going to be able to move people.

Finally, Mr. Chairman, and Senator, in this area, you'll see the funding for persons with disabilities. This is in order that we can provide other housing options for persons with disabilities, rather than the very troublesome situation that we have seen in the last several years of persons with disabilities being mixed in the same units with elderly persons.

You and I spoke in Baltimore recently of this situation, and this would give us 5,000 Section 8 rental certificates to provide low-income persons with disabilities some housing.

Finally, our fifth priority is developing communities. This effort would allow us to focus on maintaining the Community Development Block Grant funds and authorize a new program separate from CDBG of \$200 million to create a neighborhood-oriented economic development effort, rooted in the same essential principles as the older UDAG program, Mr. Chairman, which worked so well and, indeed, had its origins in Baltimore, but which too frequently across the country resulted in massive hotels and shopping malls and instances of failures. What we want to do here is focus on neighborhood economic opportunities, and there is a real need to be able to do that.

See also the funding for empowerment zones, the creation of a fund that will allow us to focus on grassroots neighborhood organizing, a Community Viability Fund that would build the capacity of community-based groups, support the design of public structures, public amenities, and neighborhood strategic initiatives badly needed.

You see the continuation of the very successful National Community Development Institute strategy of trying to build the capacity of nonprofits and community development corporations.

You see the effort to create jobs by enhancing the section 108 Loan Guarantee Program allowing the borrowing of up to \$2 billion annually for economic development.

And then, finally, you see a request to provide needed assistance for those regions of rural areas along the border, farm worker communities, migrant camps, and others, where people live without water, without electricity, without any paving, and where some measure of Federal intervention is warranted.

Mr. Chairman, much has been made by critics of both the budget and the authorizing legislation, more of the budget to be sure, about what people suggest as a preference for new programs at the expense of existing core programs. I would say two things about that.

The first is that if a department is to be graded only on how it does things in the same ways, then that would be an admonition to proceed in precisely the same ways, and to do business exactly as we had in previous years.

Frankly, you could pick 14 people out of the telephone book to take the Assistant Secretary positions at HUD and tell them just to oversee how the civil service runs the computer system that sends the CDBG checks or public housing subsidy, we wouldn't need experts like Andrew Cuomo who's actually run and built a homeless network, or Joe Shuldiner, who's run the public housing authorities in New York and Los Angeles, to do that.

We've brought in people who are making judgments about how we will do things differently and some things that need to be done new.

It's ironic that most people agree that HUD has not been well run, that our programs have not been paragons of success, and yet most of the interest groups would want us to do things precisely in the same way and criticize the budget because we haven't funded totally the things that everyone acknowledges, in the general public, have failed.

We need to do some things differently in public housing, and differently with respect to homelessness. We just can't defend the traditional way of doing business.

Second, I have before you an outline of what some of these 18 new areas of funding, and some of them are really not new in the sense that one would use the word "new."

For example, when we talk about 5,000 certificates for disabled persons, that's not any new program in the sense that the certificates are unproven or that we have to create some new bureaucracy. It is a set-aside from an existing program so that we can deal with the problem of mixing elderly and disabled populations, and we're criticized for a, quote, new program. But it is a solution to an existing problem in a way that is humane to both the elderly and the disabled.

When we set aside 15,000 certificates for vouchers for homeless families, and no one has been able to explain to me another way to get families, the fastest growing segment of the homeless population, out of shelter environments without these vouchers.

Now they say, well, get them on the lists for public housing or for Section 8 in the traditional public housing authorities, but the fact of the matter is that those lists have 3 times as many people on them as we have slots, and it is an absolute certainty that we will have families remaining in homeless shelters unless we target some vouchers for those families for that purpose.

We have to be careful in how we do this. We don't want people coming out of housing to homelessness so that they can short-cut the waiting lists and so forth, but few people are going to choose a cold concrete shelter floor to whatever housing that they may have now in order to get on a Section 8 list or short-cut a Section 8 list.

So these are the kinds of things that we're criticized for and yet we believe we've made good judgments in every case to fill some gap in logic or rationality or need that exists in the housing sector in our country.

We look forward to working with you in these changes in law as well as what you will make possible in terms of the appropriator's understanding that it's a new day in the housing industry.

Thank you very much, Mr. Chairman, and I look forward to answering your questions.

Senator SARBANES [Presiding]. Thank you very much, Mr. Secretary.

First of all, let me just address the last point, which you raised. You posited an interesting strawman and then knocked it to smithereens, but I'm not exactly sure that that is, at least for many people, the basis of some of the criticisms.

There is a perception that many of the programs made sense, but they weren't being implemented effectively. Now, if that's the case, the argument then is not for a new program, it's for the effective implementation of an existing program.

You seem to be suggesting here this morning that that isn't the case. If so, then there's a gap in the perceptions of what the problems are at HUD and what the problems are in the country with respect to housing. Though the gap may not be a total gap because I am, and I think many others are, amenable to trying to give you additional tools. In fact, we've done that twice now in this session of the Congress.

Is it your view that the real problem is that you need a whole new framework of programs and legislation in order to move forward, or do you share the view that many aspects of the framework were really quite good, and they just weren't being carried out properly?

Secretary CISNEROS. Senator, I think there's two parts to my answer.

The first is that the programs are generally essentially sound but that they need effective retooling for new circumstances. What we're asking is not dramatic departures, taking programs apart and starting from scratch, but it is an attempt to refine.

For example, there are five McKinney programs that HUD operates. If today a local community wants to apply for a comprehensive program, they apply for it in five different areas of HUD's work. They may apply for an emergency shelter, combined with an application for mental health counseling or AIDS housing with an

application for permanent housing, and they may succeed in one but not in all, and as a result, they cannot put together, with Federal assistance in any event, a comprehensive response.

We're going to try to refine—and the key word here is refine—the McKinney programs in such a way that they are worked comprehensively so that they make sense, so that they're usable to people at the local level. That's an example of sound direction in generations of evolution of Federal policy with respect to homelessness, it now needs one final or one additional refinement.

Senator SARBANES. What is the thrust going to be of the homelessness program? To get people that are in the shelters into permanent homes?

Secretary CISNEROS. The thrust, sir, is what we're calling continuum of care. No, it is not just to take people already in shelters.

A piece of it, for example, the 15,000 vouchers, is to take families which tend to be already in shelters, but this is characterized by aggressive outreach to find people who are on the streets and bring them in. That's never been a major part of American homeless strategy, but we want to go out on the streets and fund people who can bring the homeless into the shelters.

I've been told by people that it may take 45 conversations of persuasion before a person who is homeless actually comes in, and on the 45th night, something about the weather or their mood is right, and they finally will come in and then you have to work at it, but you know the encampments around the District of Columbia. There's one over across from the State Department.

I've visited with those people. I've had one conversation with them, not 45. But we want to create the capacity to talk with them as often as necessary to bring people in.

Senator SARBANES. I put the question the way I did to see whether, in fact, you would address the very issue you've addressed, because I'm frank to tell you, I don't think the American people will regard an effort to deal with the homeless as a success if you don't get the homeless people off the street.

Secretary CISNEROS. I'm 100 percent with you. I understand.

Senator SARBANES. Homelessness just presses in upon people in literally hundreds and hundreds of communities across the country, and it's a sad commentary every time one comes up against it. It's not just a housing problem, obviously.

Secretary CISNEROS. Absolutely.

The answer to your question is outreach to get people in off the streets, treatment for mental health, alcohol, and substance abuse, transitional housing with support of various kinds for persons with mental illnesses, transitional housing of the kind that I saw with you in Baltimore, transitional setting for women with children, job preparation, job training, job placement, and eventually permanent housing. That's the continuum of care strategy that is the central thrust of our homeless initiative. We want to operate all along that continuum.

Senator SARBANES. Well, let's move on.

I mean, obviously, if you've got a whole range of homeless programs and you're proposing to put them all together, and if you're increasing the resources, you may be able to move more effectively. We need to look at that and give some careful attention to it.

Secretary CISNEROS. Senator, that was one example. You asked me whether the programs themselves were in need of complete reconstruction. Another example is the modernization program in public housing.

Senator SARBANES. I want to return to that in a minute. But let me turn to the HOME program before I do that, which you are cutting.

Secretary CISNEROS. Yes, sir.

Senator SARBANES. Now, the HOME program, to work, depends on a response from State and local governments and from the private sector. It is, in fact, designed to encourage a flow of resources from those sources, and thereby, increase the total commitment to housing. In other words, the HUD money is leveraging money.

It seems to me if these other entities are going to respond, they have to have some assurance of the HUD commitment to the HOME program and some sense of its lasting nature. Otherwise, it's not going to gear up. We've had a problem with them gearing up, but I think that's improved markedly in recent times.

How can you then go to your prospective partners and assert, in a very strong and positive way, what you want to do, and assure them that there's going to be a very active and vigorous effort here when, in fact, you're pulling back on your own commitment to this joint enterprise?

Secretary CISNEROS. Senator, the second part of my answer earlier was that in some cases where we are taking action, it's not at all because the program is flawed in any way. It is only that we are faced with some very tough budget imperatives that the guidelines that have been given us by the Office of Management and Budget are very, very strict. And this situation with the HOME program is that kind of case.

When we look at 1992, HOME funds, when I came to office, something like 4 percent of the money had been obligated from earlier funds and that increased to something like 16 percent this last year, and it's now up to 33 percent. But even at that, 2 years into a particular appropriation still only 33 percent of the money is obligated. Now some part of that is HUD's fault for the complexity of the program, and I have accepted and will continue to accept responsibility for that. And we're pushing hard to move the money out.

The fundamental dilemma that I face in putting a budget together is this: We have money that's appropriated and moves into an account and is not spent by the local governments, and yet we have homeless families growing.

What is the best use of an additional dollar? Do I leave it in an account for 3 years because the HOME money spends at a certain rate? Or do we spend it?

Senator SARBANES. Let me interject at this point before you get too far down that path—or out on that limb—because I intend to try to chop it off.

[Laughter.]

Secretary CISNEROS. It just depends on how high the limb is.

Senator SARBANES. I just don't want you to get too far out so that it's embarrassing to both of us.

Let me just put this question to you, then, in that regard.

In response to strong dissatisfaction by States and localities with the current stringent definition of a commitment under the HOME program, HUD recently changed the definition of what is the commitment under the Cash Management Information System.

This redefinition makes a commitment under the HOME program more compatible with other HUD programs. No longer must agreements be signed with each and every tenant before a participating jurisdiction can register a commitment with the CMIS. Now, for example, a participating jurisdiction may sign an agreement with a nonprofit development corporation to rehabilitate identified properties and that is now defined by HUD as a commitment of HOME funds.

At least it is a commitment according to the HUD rule published last month. Now I've learned that HUD does not plan to use the new commitment definition unless a participating jurisdiction is facing its 2-year commitment deadline and risks the loss of funds.

The change in commitment definition was made in response to a local outcry that the program did not accurately reflect reality. This change in definition made commitments under the HOME program, as I indicated earlier, more compatible with commitments under other HUD programs.

Now, apparently, the new definition in the rule is only going to be implemented in a more extreme situation. Actually, I'm told that if you were applying this rule, you had a 71 percent commitment rate for fiscal 1992 funds.

Secretary CISNEROS. Right.

Senator SARBANES. And fiscal 1993 is at 13 percent.

[Pause.]

Actually, I'm told that this is under the old definition. That with the new definition, the commitment's rates are even higher. Is that correct? What would the commitment rates be under the new definition?

Secretary CISNEROS. We've not calculated under the new definition because, again, it's limited to communities that would be in danger of losing their funds. We changed this definition because jurisdictions feared losing funds, that the time period would expire under the old allocation rules, and so they had been changed.

But under the allocation rules as they were previously drafted, you're correct. Seventy-two percent of fiscal 1992 funds—these would have been available October 1, 1991, have been committed, but only 34 percent dispersed. For fiscal year 1993, which was available October 1, 1992, 15 percent have been committed and only 4.2 percent dispersed.

And Andrew Cuomo, Secretary Cuomo, under whose jurisdiction the HOME program is, has done everything he can think of, from holding workshops out across the country, bringing technical assistance to bear, changing the rules, to move the funds faster. But, fundamentally, these are the numbers today, but we think we will continue to improve.

Senator SARBANES. The State and locals are telling us that the definition of a commitment is unrealistic and unreasonable.

Here's what you're, in effect, saying. You're saying, look, we don't have a high percentage on the commitments; therefore, we're going to take money and shift it out of this area.

Now they're saying, now wait a second. We think the definition of a commitment is inadequate. The figures would be much higher if HUD were to use a proper definition, which HUD at least appears to recognize up to a point, as I understand it.

Secretary CISNEROS. Right.

Senator SARBANES. They have to put together these packages. I think they are gearing up to do it, and some localities are doing it very well indeed. And, yet, you are in effect taking them down.

Now, a lot of the initiatives, the new initiatives, as I perceive them, are in the jurisdiction of that Assistant Secretaryship. Is that correct?

Secretary CISNEROS. Some of them are, sir. The homeless funds are and the empowerment zones are, LIFT and viability are, but our efforts in public housing and fair housing and housing affordability, the housing trust, and so on I've not calculated what the Assistant Secretary has on the basis of percentage.

Senator SARBANES. Well, let me go to your chart on priority, help communities empower themselves. Neighborhood LIFT, that's in that jurisdiction, is it not?

Secretary CISNEROS. Yes, sir.

Senator SARBANES. That's plus \$200 million. Empowerment zones?

Secretary CISNEROS. Yes, sir.

Senator SARBANES. Plus \$500 million. Community Viability Fund?

Secretary CISNEROS. Yes, sir, that's the same area.

Senator SARBANES. Plus \$150 million. Economic Revitalization, plus \$150 million. Is that in that jurisdiction?

Secretary CISNEROS. That's right.

Senator SARBANES. Colonias?

Secretary CISNEROS. Yes, sir.

Senator SARBANES. All right, so we're well over \$1 billion right there.

Secretary CISNEROS. That's right. The new programs, depending on what one calls the new programs, are about \$3.8 billion, so it's about a fourth.

Senator SARBANES. And then the homelessness, which is also within that jurisdiction, is up by how much?

Secretary CISNEROS. Eight hundred million dollars.

Senator SARBANES. All right. So we have \$1.1 billion plus \$800 million. That's \$1.9 billion. That's more than your total increase, isn't it?

Secretary CISNEROS. It's more than the aggregate increase. It's not more than the net when you look at what was cut as against what is increased in new programs.

Senator SARBANES. Where's the rest of the increase coming from? Not very much, a little bit on fair housing, but that's not much.

Secretary CISNEROS. Section 8 rental assistance, disabled persons in fair housing, that's some \$514 million, as I recall. The housing trust.

Senator, let me say another word about the HOME program, because one of the things we're doing is compensating for reductions with HOME loan guarantees. And HOME is a program where we

can get the same production effect with possibly less money. Obviously, I would not cut the HOME program in an ideal world.

Senator SARBANES. I understand that, but here's the problem. You try to encourage nonprofit housing providers to get busy. You tell State housing agencies they ought to be putting in some of their own money. You try to get the localities to come to grips with their housing programs. We do a lot of this, not all of it, but a lot of it, within the framework of HOME. HOME provides the leverage and that's the catalyst from the Department of HUD and the Federal Government. Now you're cutting that back.

Secretary CISNEROS. Right.

Senator SARBANES. I mean, what kind of message does that send?

Secretary CISNEROS. Senator, here's what I had to do. I had to decide who is suffering most. I don't know anyone suffering, anyone that would be helped by the HOME program that's suffering more than the homeless population.

Senator SARBANES. But you also have to look at it in terms of where can you get resources with which to address the housing problem.

You're going to shift your funds. You're going to address homelessness with 100 percent or mostly with your money, instead of using your money to leverage other money. Then, the total overall effort to get at the housing problem is going to be diminished, not increased.

Now, you may target it somewhat better to help those that are suffering the most. But you will lose in the overall because you'll have a diminishing of the overall commitment toward the housing problem.

Secretary CISNEROS. Let me take another cut at that dilemma.

We could produce more aggregate housing in a program like HOME, and yet if we did not increase our counseling money and our mobility funds, those Americans who are trapped would not be able to take advantage of what we did with the HOME program.

So we've made these kinds of strategic decisions on what's important. I'll be honest with you, we start with a strategic predisposition toward the poor, the poorest. The homeless are in that condition. People in public housing, distressed public housing, are in that condition.

And, as we had to make these allocations, it's finally a question of economics and that is, what do you do with that marginal dollar? If you have a dollar that's going to sit there and two-thirds of it is not going to be expended 2½ years later, then we need to make use of it sooner, and we will make it up to the HOME program in next year's budget, but this is a very tight year, and that's really it. That's the best description I can give.

Senator SARBANES. Well, then let me ask you this question.

Section 233 of the National Affordable Housing Act of 1990 authorizes the Department to provide assistance for organizational support in conjunction with the implementation of the HOME program. The Congress stated that the purpose of this technical assistance money is to promote the ability of community housing development organizations to maintain, rehabilitate, and construct housing for low- and moderate-income families.

HOME technical assistance money from previous fiscal years is nearly expended, and the Department has delayed issuing a NOFA for 1994 money. Why has the 1994 HOME technical assistance money for community housing development organizations been delayed, especially in a year when HUD is speaking up about the need for community-based organizations?

Secretary CISNEROS. I'll be happy to get you an answer, Senator. Marsha Dodge of the Department is here and can speak to that. That's her area of responsibility.

I might also say to you that we have tried new approaches to leveraging funds for capacity building in community-based organizations. The NCDI initiative, where \$20 million worth of HUD funds were put up and generated \$67 million of additional foundation funds for a total of \$87.5 million, and growing, is an area where we are attempting to build capacity and leverage funds beyond what we would do with our own technical assistance.

But let me get Marsha, if that's all right with you?

Senator SARBANES. Sure.

STATEMENT OF MARSHA DODGE, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC

Ms. DODGE. There has been a review underway. There are several different sources of technical assistance funds that are administered by the Office of Community Planning and Development. Assistant Secretary Cuomo had identified a problem of overlap and duplication and disjointed delivery of those resources. And so he has directed that a review of all of the resources be undertaken to figure out a system for delivering those in a more coordinated way. That review is about complete. I think that we will be proceeding to issue those NOFA's fairly soon.

Senator SARBANES. My understanding is that there's a process of reinventing technical assistance going on within the Department. Now, in the meantime, this money isn't getting out. You've got these community organizations waiting for technical assistance and pass-through funds. There's no NOFA for them, directing them to come in with their proposals and get the money moving.

It seems to me you're working at cross purposes here. We've been encouraging all the partners to interact with HUD. We've been urging them on and saying, it's a new day, get moving, and really get active and get things done. You've got a Department that's really going to be pushing you every step of the way and supporting you. I am concerned that some of that spirit is going to be undercut. This is one example of it. The cutback in the HOME program is another example.

I'm going to turn, in a minute, to the public housing problem. I'm not going to go through all of these other new initiatives that are over here in the so-called empowerment section. But, I'm afraid we're going to lose some of the momentum that we're building up if we're not careful here.

Secretary CISNEROS. Senator, I appreciate the point.

Senator SARBANES. You know what the reaction has been on the part of many Members of the Congress. Many Members have the perception that we're getting a lot of new proposals without carrying out what's there now, some of which they think are pretty good.

I'm open to looking, in a rational and reasonable way, at what you've submitted. I don't start out with any strong predisposition—well, that's not quite accurate. I mean—

[Laughter.]

There are some programs that have been put in place which I think have the possibility of being very effective, and I think the Department needs to make sure it is carrying through on those. I'm especially interested in the ones where the Federal money is leveraging money.

The pension fund demonstration is a good example of that. You cited that, and that's potentially a major breakthrough, and of course we did everything we could here to get that to you as quickly as possible. It got held up a bit and there were some problems connected with passing it, but in the end we were able to get it down there, and you've been able to move with it.

There's some State governments that are putting money into housing now, in order to meet the HOME match, that were never putting money into housing before.

Now, I come from a State that has had an active commitment to housing on its own part, and, therefore, this just simply gives them an additional impetus. It wasn't a question of drawing them into the housing activity. But, there are States, I think Texas was one—your own home State—that, for the first time, passed at the State level, money for housing in order to do the HOME match, and become eligible for the Federal funds. That's a nice example of leveraging.

And, of course, once you draw the State governments into housing to begin with, the chances that they will up their commitment is greatly enhanced.

Let me turn to the public housing. I don't want to keep you much longer.

Secretary CISNEROS. This is very helpful, Senator. I'm pleased to try to respond to these points. Again, on the HOME, and the other places where we've had to make cuts, it is a balancing effort, to try to not hurt programs, and, admittedly, you've made a strong point about the perception that we will be unstable in future outlay streams affecting the capacity of States and others to plan. It's a very important point.

Senator SARBANES. See, there are many of us who think the HOME money ought to be much higher. Jim Rouse argued for that very strongly. He thought that to show that you're really being serious for State and local nonprofits, the Federal commitment to HOME ought to be \$2 to \$3 billion.

Now we've not managed to do that. But I do think we have put enough money in the program, that if we at least sustained it—rather than cutting it—there are a lot of people out there who are anxious to get going. I mean, they want to try to address the housing problem, and it could carry forward.

I think the message that's sent by this cutback of \$275 million, is a very bad message. I can find \$275 million elsewhere in here as I look at your list of proposals. You're doing new initiatives and you're starting them, at \$200 million, \$150 million, \$100 million.

I could do the new initiatives at half the rate you're doing them and restore HOME right now. You wouldn't send the bad message

on HOME and you would have your new initiatives, but not at the levels that you had presupposed. Now, I don't know. What's the rationale for those levels as opposed to somewhat lower levels?

Secretary CISNEROS. Let me give you an example.

Senator SARBANES. Is there a rationale that says, unless you do it at that level, the program just can't work?

Secretary CISNEROS. No, but let me give you an example. One that we propose as a new initiative is a thing we're calling "Neighborhood LIFT." What is Neighborhood LIFT?

It is an initiative to try to respond to mayors like Mayor White, Mike White, in Cleveland, who says to me, "Henry, I can't get the side streets developed in housing while the arterials of neighborhood businesses are declining at the rate they are. I can't get people to invest in housing on the side streets when they drive through neighborhoods that are in decline."

So we said, "All right, let's look at an approach like the old UDAG approach, where the Government puts up some seed money and we see some catalytic effect in the form of neighborhood investment and see if we can make that work; not the big hotels and the shopping malls and so forth that characterized the UDAG program, but neighborhood, small scale neighborhood seeding of activity."

Now, you know that the genesis of the UDAG program was Bob Embry and those folks in 1976-1977, and that it was perhaps more effective in Baltimore than in any other city in the country. We're not trying to repeat that. But in 1977, when they advanced the UDAG program in the first months of the Carter Administration, they started with \$400 million then. We're talking about a national strategy of attempting to seed neighborhood businesses with half the money that they started with in 1977. And this is almost 20 years later.

So that's the rationale for \$200 million for a program like that.

Senator SARBANES. What's the \$150 million for economic revitalization?

Secretary CISNEROS. That is to provide funding for the operation of the 108 loan program, which is a program where communities pledge 5 years of CDBG's collateral in order to make loans available for community economic activity. It's a loan program.

Senator SARBANES. Could they use that money to do the Neighborhood LIFT?

Secretary CISNEROS. They could, except that it's a loan program, and—

Senator SARBANES. Well, that's the program you all urged us very much to give you the authority for.

Secretary CISNEROS. That's correct.

Senator SARBANES. Is that right?

Secretary CISNEROS. Well, the authority existed. We asked for some modification of it so it could be used more broadly. It's never been used very well and we think it could be used, although it's a loan program. When I go to places like Vermont Avenue in South Central Los Angeles, there's not a lot of people with much capacity to pledge a whole lot to borrow.

Senator SARBANES. What's the Community Viability Fund?

Secretary CISNEROS. That's something that came to me in the first couple of weeks we were in office and, again, I hate to keep

using Baltimore examples, but this is something that Kurt Schmoke and I talked about at the very beginning, and it's two things.

One, Senator, I believe that we're not going to be able to get community involvement without the existence of organizations like BUILD, ACORN, and other industrial areas foundation type efforts. And, while we do not, we don't want to be in the business of funding community organizing, many times community organizations of that nature can organize if they have successes to show in the things that they're doing.

For example, we're working with ACORN in Philadelphia on what's called the "Delaware Counseling Effort" to do community-based housing counseling. They've literally taken thousands of people personally to bankers and gotten housing loans made.

I have no discretion anywhere in the HUD budget to give that kind of assistance to community-based organizations that empowers them with the successes that they have to continue to organize and build a network of active community organizations.

Senator SARBANES. Why \$150 million? That's a good chunk of money.

Secretary CISNEROS. Well, that's half of what we want to do with that viability. The other piece of this is the Kurt Schmoke conversation.

I'm convinced that there are many cities in America, central cities, that no matter what else we do, will continue in a death spiral unless they are able to forge metropolitan-wide economic strategies. When Mayor Schmoke talks to me, for example, about the biosciences sector in Baltimore, he requires a larger economic effort than what can be done by Baltimore alone and requires a relationship with the county and outlying counties, maybe even the State. We want to fund a handful of demonstrations of communities that can really work on economic viability of a larger metropolitan dimension.

Those are the two things that we would do.

Senator SARBANES. Would you take the viability fund and the Neighborhood LIFT and put it into empowerment, if you could do that?

Secretary CISNEROS. In the empowerment zones?

Senator SARBANES. Yes.

Secretary CISNEROS. Well, that's one approach, although then that limits us to the places that are selected as empowerment zones or enterprise communities.

Senator SARBANES. It seems to me, and I warned people in the Administration about this more than a year ago, but you are in such tight straits on that that you're in danger of undercutting the competition because the chances of succeeding are so small. Why wouldn't it make sense, rather than doing some of these other new initiatives, to take that money and increase what's being committed to the empowerment zones, thereby really enhancing that competition?

Now, it's being argued that just participating in the competition is going to enable a community to move itself forward because it's going to require a degree of self-analysis and planning and formulating of strategies which will stand the community in good stead.

Even if it doesn't prevail, it may not be an empowerment zone, it may be an enterprise community, although the gap is very big and probably needs to be closed down.

But suppose you had more money for that process?

Secretary CISNEROS. Senator, I'm not one that has argued that communities, you've never heard me argue that communities would benefit just from the planning process because, as a former mayor, I know there's nothing that substitutes for being selected and actually getting the money.

But let me answer your question specifically, whether these programs could be related to the empowerment and enterprise communities. The answer's yes, we could do it that way.

I just know that I need some resources to support community-based efforts in communities where they're really—they will determine the difference between whether there's a fair power balance in that community or not, whether the voice of people in the community will be heard.

Senator SARBANES. See, if we did that, you might end up restoring HOME and enhancing the empowerment zone and enterprise community concept, both of which are now in the law.

Secretary CISNEROS. Right.

Senator SARBANES. But, to do that, you might have to either give up or markedly cut back on these new initiatives. It seems to me that, as an overall strategy, you might come out ahead.

Secretary CISNEROS. Yes, sir. I'm all ears. I'm willing to work with the Committee and you and your staff on any of these points.

But do please know that these things are complementary. When the Mayor of Cleveland tells me that he can't get meaningful commitment by individuals to purchase homes on side streets—

Senator SARBANES. Would the Mayor of Cleveland rather have that program and get—I don't know what you'd give to him—or a better shot at becoming an empowerment zone?

Secretary CISNEROS. The choice that we were discussing is between that and more HOME dollars. And I think he sees these as complementary. He can't make the HOME program work on the side streets of Cleveland without some neighborhood business commitment. So, I just want to make sure that these—none of these are just concoctions out of the blue. They fit in some larger strategic sense.

Senator SARBANES. Well, why didn't this page—let me leave the HOME out of it now—why didn't this page—

Secretary CISNEROS. What page is that, sir?

Senator SARBANES. I'm looking at the page of priorities called "Help communities empower themselves."

Secretary CISNEROS. Right.

Senator SARBANES. Say, instead of these pluses here, that you wanted a bigger plus there for the empowerment zones.

Secretary CISNEROS. Well, for the reason that I cited earlier. Until this conversation, linking it to empowerment zones, I wasn't sure that we would always want to do this in only the 104 communities that are selected for the empowerment zones or enterprise communities from the literally ten thousand that we have to relate to.

Senator SARBANES. Of course, that's the whole argument about why we're focusing those resources. The argument, as I understood it, was that it would show—

Secretary CISNEROS. You have a good point.

Senator SARBANES. —would show good models. I mean, if I take the logic of that response, then I'd drop the empowerment zones and shift that money into these other activities.

Secretary CISNEROS. You make a very good point. And the truth of the matter is that if communities are selected because they've offered up a good economic plan that qualifies them to be one of the 104, then, logically, that's a place that would be funded under Community Viability because they have a good logic for economic planning metropolitan-wide. I can see these things linked very directly.

Senator SARBANES. Now, let me ask a question on what the rational analysis is that determined the additional amount of money that was going to go to the homelessness program? I mean, was there some exercise gone through that concluded that these numbers were the right numbers?

Secretary CISNEROS. Essentially, Senator, it's two things. First, I was told that if I could come up with 20,000, and I was told this by experts in the homeless field that we brought in on Saturdays for a series of work sessions, that if we could come up with 20,000 certificates or vouchers for homeless families in shelters, we could make a substantial dent in the homeless families situation.

We couldn't come up with 20,000 with this budget situation but we came up with 15,000, and so that explains \$514 million in the mathematics of 15,000 vouchers.

Senator SARBANES. All right.

Secretary CISNEROS. The other is an assessment of the difference between when we have gone out with our traditional McKinney programs, the difference between the applications that come in and the demand out there and what we are able to fund.

I have a sheet here, for example, that describes the total dollars requested when we go out for the shelter plus care program or the single room occupancy programs versus the dollars awarded.

For example, under our program called "supportive housing" last year, we had \$2.3 billion worth of requests for \$88 million worth of money. We were just trying to get some rough approximation of what we can reasonably do in these programs and that's where the dollar figures came from. We had 1,371 applications and 43 were funded. That's what was out there in terms of need in homelessness last October.

Senator SARBANES. All right. Let me just pursue a few other items.

Secretary CISNEROS. This may be useful to you.

Senator SARBANES. We'd very much like to have it. Thank you.

I gather you are reducing the section 202 housing, almost eliminating it. Is that correct?

Secretary CISNEROS. We hope that that's a 1-year aberration to, in effect, use what's in the pipeline and be able to use the money for some of these other priorities.

The rationale essentially is that there are many in the—there are some, let me just say, in Government—not particularly at HUD

necessarily—but in the Government who believe that, rather than building new elderly housing at \$70,000 to \$75,000 a unit, that making vouchers available or certificates for elderly housing at \$30,000 a certificate, is a better way to house people.

Now, we made the argument, and the budget reflects that we were not successful, and that's about the best description I can give to that.

We know that this is a popular program.

Senator SARBANES. Well, it's popular because it works.

Secretary CISNEROS. And we know there's a demand for it, and we know that it does work.

Senator SARBANES. As you know, you get good services for the elderly in most of those housing projects. Elderly residents get the community living that is important to them, including feeding programs right in the facility and recreational programs. Often they're church sponsored projects, so you get a volunteer commitment out of the church groups in terms of looking after the housing and interacting with the elderly residents on the various support and service programs that otherwise would not be attained.

One of the few programs that, by general agreement, has really been quite successful, is the section 202. Wouldn't you agree with that?

Secretary CISNEROS. Yes, sir. Again, the budget development process is a long, convoluted process of bargaining and negotiation, and this is the outcome of that process.

Senator SARBANES. Of course, if we lose that, you're going to lose the monetary value of what you're getting out of the sponsors of those housing projects, are you not?

Secretary CISNEROS. Yes, sir. We would not get the matching value. Again, the general sense is that if we were off for a year, we can make it up and smooth out the stream. But that's, clearly that's not a persuasive argument to persons who want the levels as high as we could get them.

Senator SARBANES. Well, I can understand that argument, but when you go from \$1.1 billion to \$150 million, that doesn't look like much of a holding action. I mean, one can understand a holding action, but that doesn't seem to be much of a holding action.

Let me ask you now about public housing. I'm not quite clear I understand the strategy on public housing. Is the \$2 billion direct loan program contained in these charts that you were showing us? Is it reflected in those charts?

Secretary CISNEROS. No, it's not. It's not. The 108?

Senator SARBANES. I don't know. I don't fully know this program. HUD has proposed a \$2 billion direct loan program for modernizing and replacing public housing. HUD would require a pledge of the State and local funds and public housing authority funds as collateral.

Secretary CISNEROS. Oh, I'm sorry. You're referring to the public housing loan program we discussed.

No, sir, that is not reflected here. It is a—these are just the budget charts and that would be an authorizing scheme that would not be reflected in the budget. This is a 1-year budget, and we only get to \$2 billion by capitalizing future streams of modernization.

Let me describe quickly how that works. That's a very interesting, and, we think, dramatically important tool.

Presently, modernization funds are available only for modernization. And frequently what we have is circumstances, such as those I've seen in Chicago, where modernization is clearly not what is demanded. What is demanded is a different construction scheme. In other words, we have to take down, we have to demolish, we have to replace.

Putting more modernization into those highrises in Chicago is not the answer, and 9 out of 10 people in Chicago will agree with that, including the residents and the mayor and the head of the housing authority and almost everyone else.

Chicago gets about \$150 million a year in modernization. What we are proposing is something like this. They would take half of that sum of money, or \$75 million, for example, and capitalize that for a 10-year period so that they could build and replace the existing highrises by having money up front. In other words, the money for modernization is not best spent for rehabilitation, it's best spent for replacement, so we need authorizing language to help us use it for replacement.

And second, we need to be able to use tools that are available to us, either bonding approaches or loan approaches or others, some collateralized at the local level perhaps. We're still working with OMB on the mechanics of how this would work.

But it would allow Chicago to have, say, \$500 plus million to replace the highrises immediately, instead of no prospect except the urban revitalization demonstrations at \$50 million a year, and they will never, ever get to the level of replacement that they need.

Senator SARBANES. Would they have enough if they're going to be borrowing this \$500 million? Is that right?

Secretary CISNEROS. Yes, sir.

Senator SARBANES. Direct loan?

Secretary CISNEROS. Yes, sir.

Senator SARBANES. How will they repay it?

Secretary CISNEROS. Out of the future stream of modernization moneys that are now available for replacement.

Senator SARBANES. So, in effect, you'll do your modernization up front, and then you won't do any for a long time?

Secretary CISNEROS. No. As I suggested, they get \$150 million a year, and we're suggesting that half of that, or \$75 million, would be provided as debt service for the modernization, and another \$75 million would be used for the rest of what they're not replacing, as well as the modernization needs in maybe the new stock. But the new stock shouldn't need modernization.

Senator SARBANES. Now, who is going to determine how this works for communities?

Secretary CISNEROS. Well, we would write in the authorizing language the essence of the program and what amount would be allowable for replacement out of modernization, what percentage of their funds they could use and so forth. But we hope that this would be characterized by a good deal of flexibility at the local level to use it as they will.

I am told, for example, that Chicago has some very clear ideas about how they would put it to use.

I think that of all of the things that we could do in public housing, rent rules and everything else we could do, this would be about the most important thing in maybe the last 25 years. Give public housing authorities an available sum of money of this scale for replacement.

Senator, as you know, right now, all Baltimore can count on for replacement effectively is the URD money, \$50 million, that last year went to Lafayette or Lexington. And there, Mayor Schmoke has in mind replacing all of the highrises; Murphy, Flag, Lexington, Lafayette, but it will be years.

This would be a device by which the State or the local government could become involved, perhaps with bonding, and come up with the money up front that in the span of the next 3 years, literally, they could replace thousands of units.

Senator SARBANES. What process of consultation with the public housing authorities went into the formulation of this?

Secretary CISNEROS. The idea came from the housing authorities. It started with Vince Lane in Chicago.

Senator SARBANES. It came from a housing authority.

Secretary CISNEROS. Started, and then we brought people together in work groups over the intervening weeks since the idea surfaced. And I could cite you the names and the organizations that have been involved in it, but—

Senator SARBANES. Now, would this lead to an increase in the amount of public housing available?

Secretary CISNEROS. It's designed to replace on a one-for-one hard unit basis.

Senator SARBANES. Yes, but much of what it's replacing is now vacant, is it not?

Secretary CISNEROS. In that sense, it would be an increase.

Senator SARBANES. Now, how do you square that with reducing the operating subsidies as you proposed to do in your chart headed "Priority: Turn Around Public Housing"? You're telling me here—and this may be a very interesting idea—that the direct loan program would enable them to move ahead and do now what was going to be done later. But then, if that's the case, how can you reduce the operating subsidies?

Secretary CISNEROS. Senator, let me just be as direct as I can be. The most difficult cut that resulted from our budget negotiations, the most difficult result for us, and for me, is this.

The Department starts at one place and the result comes out at another. There is, however, one substantive response or rationale. And that is that the changes in the preference rules, it is hoped, will change the nature of the need for operating subsidies at these levels by changing the income mix. Assistant Secretary Joe Shuldiner estimates that.

If you'll bear with me for just one minute on this point, 10 years ago, the income average in public housing across America was 38 percent of the area median. Today it is 17 percent of the area median. People are exceedingly poor in public housing, as I described earlier. No work, no role models, no income mix. It is one of the reasons why we have the massive problems that we do in public housing.

If public housing had remained at the 38 percent, just the 38 percent number of 10 years ago, the need for operating subsidy today would be \$500 million instead of \$2.5 billion that it is because the income is so low.

We want to gradually change the income mix in such a way that it will affect the operating subsidy.

Senator SARBANES. How does that square with what you told me earlier that you were going to focus your resources on those that were suffering the most?

Secretary CISNEROS. Well, as I said earlier—

Senator SARBANES. Now, in this area at least, I'm sympathetic to this approach. I'm merely questioning the previous statement obviously. I'm being told that an approach that focuses less on the ones that were suffering the most might, in fact, be a better approach.

Secretary CISNEROS. Let me say, this is a difficult call, and it will be difficult to do. My belief is that we change income mix, not by bringing people of higher incomes to public housing but by creating opportunities for people who are now in public housing, section 3 work, jobs in the authorities, jobs with modernization funds, and job training opportunities with which we expect to collaborate with the Labor Department.

But this is a harder thing to do than simply changing income by bringing in other people of higher income. That doesn't solve the problems of the people who are poor who are there now. I think we need to change the dynamic, the incentive structure for work in public housing as it exists and raise incomes that way.

Senator SARBANES. Let me just ask a question about raising the FHA limits. Is it your view this would strengthen the fund?

Secretary CISNEROS. Yes, sir. The principal rationales are two. One, to assure the solvency of the funds, and second to give FHA an opportunity to operate in these high-cost markets in a way that is competitive and that allows FHA to deal with the lower end of the market because it can participate at a more middle-income range.

Today—

Senator SARBANES. What about the argument that it's shifting the FHA focus away from the lower-income people and moving them into an area that can be more adequately addressed by the private sector?

Secretary CISNEROS. The first argument to that is that we are strengthening our commitment to the lower-income people with things like the housing trust and other approaches to getting first-time homebuyers and others into the marketplace. And second, we cannot operate at the lower end of the market unless we meet our fiduciary obligations to the solvency of the fund, and this enables us to do that.

No business, and essentially FHA's an insurance business, can succeed if it cannot participate in a range of the market that allows its lower-income obligations to be addressed fiduciarily responsibly.

I'd ask Nic Retsinas, who was here, I can't see behind me, but has Nic gone? Oh, Jeannie Engel is here. If she would like to embellish on that, she's the Deputy Assistant Secretary at FHA.

Jeannie, go ahead, please.

STATEMENT OF JEANNIE ENGEL, DEPUTY ASSISTANT SECRETARY, FEDERAL HOUSING ADMINISTRATION, WASHINGTON, DC

Ms. ENGEL. Mr. Chairman, we have refocused our efforts this year to get FHA back in business, and we are refocusing our efforts on the lower end of the income spectrum.

To repeat what the Secretary said, we believe we can only do that if we expand the scope of FHA business so that we can assure the health of the fund, so that we can then take the proceeds of the upper end of the market and cross subsidize with the lower end.

We are doing things like introducing a no-downpayment mortgage. We are doing things like selling properties out of our inventory at substantial discounts to nonprofit corporations and to homeless providers, for example. The only way we can continue to do that is if we have a healthy fund, and we do intend, this year, to meet our capitalization ratios.

[Pause.]

Senator SARBANES. Obviously, we're going to have to keep coming back to these issues over the coming weeks as we try to work through them, and address this reauthorization.

I'm interested, when you interact with the Office of Management and Budget, with whom does that interaction usually take place?

Secretary CISNEROS. The Program Area Director for HUD is Chris Edlee at OMB and his staff, principally, Mr. Redburn and Mr. Ryder, are the liaison or interface with us on an almost daily basis. I would say that our staff talks with them three, four, or five times a day.

Senator SARBANES. Are you given these figures, the big figures, in a lump sum as an allocation out of the Federal budget process which you then can put to the best use, as you judge it, within the Department, or do the Office of Management and Budget people come in and do each of these items that are through here, maybe even below these levels?

Secretary CISNEROS. No, sir. We are not given those numbers. We were given numbers about \$4 billion under those numbers.

Senator SARBANES. Well, I recall that.

Secretary CISNEROS. And we argued, literally, line by line, program by program, assumption by assumption, weekend meetings, until, finally, we had an opportunity to appeal to the highest levels of the office, and eventually an appeals process that went to the White House, and the fact that HUD ended up one of seven Departments that gained is attributable to the President's personal commitment to this agenda.

Senator SARBANES. I spoke to the President about this agenda, and I must say to you, one of the strongest arguments I think that could be made to him was that he had a Department that was on the move, that was getting things done that could produce results, and I think it's very important to keep that moving.

I'm not for reinventing technical assistance; I'm for getting that technical assistance money out, to go back to an earlier point. I mean, these groups are waiting. They are out there to do the job. Maybe technical assistance needs to be reinvented. Reinvent it in the next cycle, but don't delay these NOFA's now, to the extent

that they've been delayed, so the groups are beginning to say, we can't function, we've got to move ahead. Why would you do that?

I mean, we want to produce results out on the ground. When I came in here and made my opening statement, I tried to make reference to things that were actually happening, results are being produced, things are getting done. People can see that. That was the essential argument that at least I made to the President on behalf of your budget.

Let me ask you this question. If the budget figures had been, the big figures had been acceptable, would you then have been able to do with them as you wanted, or do the Office of Management and Budget people come in and in effect do your budget, if not item by item, at least category by category?

In this instance, it was a very low overall figure. So you had to go back and try to boost it. In the course of trying to boost it, you therefore had to—

Secretary CISNEROS. Some winners and some losers.

Senator SARBANES. —hold the overall level in order to make your case. But, as a general process, how's that done?

Secretary CISNEROS. I don't believe a Department is allowed to simply put forward aggregate budget numbers without analysis of the underlying assumptions within given programs. And, as you know—

Senator SARBANES. Suppose they want to cut you and you say well, you know, the way you're trying to do it is crazy. Even if we were going to take something of a reduction, we could do it in a better way?

Secretary CISNEROS. They will sometimes allow for offsets if you provide another way to cut and achieve what they want, even though they might disagree with the dynamics of a particular program. They would essentially say, well, all right, if you can find an offset for it, we'll let you do that, but you'll have to cut it from somewhere else.

But they do question the internal dynamics of programs, and I might say to you, and I've said this to the public housing industry, that one of the problems that the industry, we, and everyone involved in public housing confronts, is the broad assumption, and I don't restrict this to OMB because I think it's widespread in the American public, that public housing cannot continue in the way that it has.

Senator SARBANES. Except some of that public housing is very good. I mean what gets all the attention are the failures. You very rarely see an article that tells how well some of the public housing is working.

We held hearings on that, and, of course, the conclusion we reached is that it's very much the management. I mean why do some cities have public housing that is perfectly reasonable, a good place for people to live, meets a pressing need, and in other cities it's an absolute disaster?

Secretary CISNEROS. About a quarter of the units in public housing, not a quarter of the housing authorities or cities, but about a quarter of the units which house 4 million people total, about a quarter of the units are in troubled settings, so it's a pretty significant number that are classified as troubled.

And you are right. It's in part management, it's in part scale, it's in part, it's in large measure our fault.

Senator SARBANES. A quarter of the units of public housing are rated as troubled?

Secretary CISNEROS. That's correct.

Senator SARBANES. All right. What portion of that quarter would be in the 10 most troubled public housing authorities?

Secretary CISNEROS. I don't know what number of that quarter but the greatest majority of it probably.

Senator SARBANES. So if I just took 10—

Secretary CISNEROS. Let me say, in the largest 40 housing authorities, let us say, not 10, but 40.

Senator SARBANES. I don't mean largest in size. Do you mean that the largest 40 have troubles?

Secretary CISNEROS. The largest 40. If you would go through the largest 40 in America, you'd have the vast majority of the troubled as well. It is a function of size, of size of the authority, size of the number of units, size of the developments.

And then I want to make clear—

Senator SARBANES. There are some large housing authorities that don't have too many troubled units, aren't there? San Francisco, maybe?

Secretary CISNEROS. I don't know where that one is, if there's one that's not troubled that's a big one, except New York City has had a traditional reputation of being a pretty good housing authority. But that allows me to make the point. In the last few years, HUD and the Federal Government have been a big part of the problem for the housing authorities. Our preference rules have pushed them in the direction of this concentration of the very poor. Our income rules and rent rules, have created this disincentive for work.

Our lack of flexibility, so that the housing authorities have to manage so inflexibly and tightly, has been part of the problem.

We want to be less of the problem, and that's part of why we're bringing this authorizing language and why Joe Shuldiner's beginning a process of not just looking at regulations from the top down and saying, which ones can we take out, but starting at the other end, clearing the slate at least abstractly, and saying, what's the minimum we have to have for a housing authority to function.

We're going to bring you, in future years, literally, a ground up removal of barriers for public housing authorities, which is more than we could bring you in this authorizing bill.

Senator SARBANES. Mr. Secretary, thank you very much. We look forward to continuing and I assume intensifying the dialog.

The Committee stands adjourned.

[Whereupon, at 12 p.m., the Committee was adjourned, subject to the call of the Chair.]

[Prepared statements, response to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

Mr. President, the Housing Choice and Community Investment Act of 1994 was submitted to Congress yesterday by the Secretary of the Department of Housing and Urban Development (HUD), Henry Cisneros. I join Banking Committee Chairman Donald Riegle today in introducing the Administration's bill by request.

The Congress will need to reauthorize all of the Federal Government's housing programs this year. The legislation we introduce today on behalf of Secretary Cisneros embodies the Administration's legislative proposals for programs administered by HUD. As Chairman of the Senate Subcommittee on Housing and Urban Affairs, I intend to review the Administration's proposals carefully for inclusion in the housing reauthorization bill.

Over the last 15 months, it has been my pleasure to work with Secretary Cisneros on two particular pieces of legislation—since signed into law—that reflect his thoughtful approach to HUD mission. These new laws will improve HUD's performance by streamlining the multifamily property disposition process, by reducing defaults on mortgages insured by HUD, by removing certain barriers to the flexible use of the HOME Investment Partnerships program, and by delegating more responsibility to other partners in housing and community development activities. At the same time, the new legislation allows the Secretary to test out new approaches to solving housing and community development problems. We are watching closely for the results of newly enacted demonstration programs recommended by the Secretary for testing innovative solutions to the problems of homelessness, for encouraging prudent and safe pension fund investment in affordable housing, for building the capacity of community-based nonprofits, and for enhancing the community development loan guarantee program as an economic development tool.

Since his arrival, Secretary Cisneros has made tremendous strides in his efforts to make the Federal Government a stronger partner in revitalizing our Nation's communities. He has demonstrated great energy and vision in putting forth an agenda to improve HUD's management and get HUD moving again. He deserves our continued support for his efforts to restore HUD's credibility, to leverage new resources, and to strengthen partnerships between the Federal Government and other levels of government and the private sector. I look forward to working with Secretary Cisneros and his able team at HUD toward shaping a reauthorization bill this year that will further their efforts.

PREPARED STATEMENT OF SENATOR CHRISTOPHER J. DODD

Let me begin by commending Secretary Cisneros for his efforts to strengthen the Department of Housing and Urban Development (HUD) and its role in community development. During the first 16 months of his tenure, he has worked diligently to reorganize the Department and streamline programs. These changes have improved the partnership between the Department, State and local governments, and the private sector. Clearly, each part of that partnership must be working well if we want to restore safety and prosperity to distressed neighborhoods. Under Secretary Cisneros' leadership, HUD is headed in the right direction.

As the Secretary works to reform HUD, we must ensure that he has the tools he needs to help rebuild communities. Congress has already taken some steps toward that goal. Last year, we authorized a number of the Department's initiatives in the HUD Demonstration Act of 1993. That legislation authorizes \$100 million for the new Community Investment Demonstration project which creates a partnership between the Department and pension funds. That partnership will facilitate the production of thousands of affordable housing units. The legislation also expanded efforts to promote housing choice by adding funding for the Moving to Opportunity program, authorized new partnerships to address the problem of homelessness, and put in place an innovative program to support the work of community development corporations.

Earlier this year, we passed the Multifamily Housing Property Disposition Reform Act of 1994. In addition to giving HUD flexibility to dispose of the multifamily properties it has acquired through defaults, the legislation makes the HOME program more user-friendly and provides new grants under the section 108 loan guarantee program.

Although Congress has not completed action on the measure, the Community Development, Credit Enhancement, and Regulatory Improvement Act should also help. By providing much-needed capital to community development financial institutions, this legislation will help distressed neighborhoods attract and retain jobs.

Of course, we need to do much more in the areas of housing and urban development. Homelessness continues to be a critical problem. A recent report from the Connecticut Association of Human Services noted that the number of children using homeless shelters in my State increased by 40 percent in the past 5 years. We need to address this problem with the sense of urgency it deserves.

We must also improve public housing. In too many cities, including several in Connecticut, public housing residents must contend with deteriorating buildings and violent crime. These conditions are a disgrace and we must intensify our efforts to improve them.

More generally, we need to stimulate the production of affordable housing and help people move to home ownership. Last year, the Enterprise Foundation reported that about 60 percent of families at the poverty level pay at least 50 percent of their income on rent. Lacking the means to afford rent, many low-income people are forced to crowd into smaller units, and frequently those units are substandard. Living under those circumstances, the dream of home ownership begins to fade.

Finally, we must support economic growth in distressed neighborhoods. People need jobs. Of course, there is a limit to what Government can accomplish. Much of the solution to our urban problems depends on a stronger American economy—a revitalized private sector that spreads opportunity and prosperity to even the poorest neighborhoods.

Because the Department just finished drafting its legislative package, I have not had a chance to review it. However, I understand that it addresses some of the problems I have outlined. I look forward to analyzing these proposals over the next few months, and working with my colleagues to pass legislation that will help revitalize our communities.

PREPARED STATEMENT OF SENATOR CHRISTOPHER S. BOND

Thank you, Mr. Chairman, for holding this important hearing on HUD's proposed housing and community development reauthorization bill, the Housing Choice and Community Investment Act of 1994. I have received only recently a copy of this legislation on Tuesday, April 28, 1994. I look forward to reviewing the legislation over the next several weeks. I also look forward to hearing today from Secretary Cisneros on the legislation. I had the pleasure of hearing from Secretary Cisneros on many of the legislative initiatives in the bill on April 21, 1994, when the Secretary testified before the HUD/VA Appropriations Subcommittee on the fiscal year 1995 HUD Budget Request. I hope to follow up on our dialogue from that hearing.

I emphasize that I am very concerned over HUD's apparent intent to refocus its energies away from reforming its core programs, such as the CDBG program, the HOME program, and Public Housing program, to creating some 18 new programs and initiatives. The real need is to focus on managing existing programs well, not creating new programs. We also need to ensure that HUD has the capacity and expertise to manage its existing programs. In particular, the HUD IG has warned Congress repeatedly over the last several years and longer about significant deficiencies in HUD data systems, internal controls, and resource management.

I urge the Secretary to reassess these new program decisions and focus instead on HUD's core programs. The CDBG program, the section 8 program, the Public Housing program, and the HOME program are the backbone of the Federal Government's commitment to providing housing and community development assistance to low- and moderate-income Americans. I strongly recommend that the Department focus on making these core programs work effectively and efficiently through adequate funding, program consolidation, regulatory relief, and deference to responsible, local decisionmaking.

I am especially concerned over HUD's budget request to reduce funding for the HOME program from \$1.275 billion in fiscal year 1994 to \$1 billion in fiscal year 1995. This is an important program that I strongly support and which deserves full funding. Most importantly, it is also a program that emphasizes local decisionmaking to address local housing needs.

I am also concerned over a number of HUD proposals to modify and establish new initiatives under the FHA Single Family Mortgage Insurance program. These proposals include a new no-downpayment program for distressed communities and increased FHA single-family mortgage insurance limits. For example, HUD is proposing to increase the FHA Single Family Mortgage Insurance limits for high cost areas from \$152,000 to \$172,000. I question whether this reflects a refocus of the mission of the FHA Single Family Mortgage Insurance program away from low- and moderate-income first-time homebuyers to more high-income families. I have deep

concerns over how these FHA proposals will impact the actuarial soundness of the Mutual Mortgage Insurance Fund. We have not been provided with the most recent actuarial study of the Mutual Mortgage Insurance Fund and I think we need to look very closely at how any proposal will impact the actuarial soundness of the fund. I emphasize that these are important decisions that need careful examination and consideration; I am sure that no one on this Committee wants to preside over a future bailout of the FHA Single Family Mortgage Insurance program.

Finally, I want to applaud HUD for proposing to develop a Homeless Block Grant program as a way to consolidate and make more efficient the McKinney Homeless Assistance programs. I have not had time to review this proposal, but I support the underlying concept.

I also am eager to review the Department's recommendations for public housing reform. As I have indicated in the past, I support a more flexible and local approach to public housing, including rent reform to promote employment and more mixed incomes in public housing. I am also hopeful that we can craft a provision to create entrepreneurial PHA's that have the flexibility and local discretion to create better communities in public housing and which can act as laboratories for positive change in these communities. Finally, I support the more flexible use of modernization funding for new construction where the cost of rehabilitation exceeds the cost of new construction.

Mr. Secretary, I look forward to hearing your testimony and look forward to working with you and the other Members of the Committee on this legislation.

PREPARED STATEMENT OF SENATOR ALFONSE M. D'AMATO

Mr. Chairman, I would like to thank you for holding this hearing to discuss HUD's proposed legislative agenda for 1994. I received a copy of the proposal entitled the Housing Choice and Community Investment Act of 1994 two days ago. I am nevertheless looking forward to hearing Secretary Cisneros' testimony and working with him to develop responsible legislation.

It is imperative that Congress and HUD work together to make Federal programs work for those they serve. We must focus on getting the money out of the pipeline and into communities around the Nation. It is especially important now, at a time when our Nation is in desperate need of affordable housing and facing scarce resources, that we maximize the dollars on the core programs which Congress has developed over the last four years.

We are all aware that HUD administers a myriad of complex programs which are sometimes redundant and conflicting. HUD must focus on successfully operating the more than 200 separate program activities it is responsible for and which it lacks the staff or fundamental management systems to safeguard against scandal, mismanagement, and losses to taxpayers.

Between 1980 and 1992 HUD programs grew from 54 to over 200. Since 1990, Congress created or substantially altered 67 programs. HUD is now proposing 18 new programs. I urge the Secretary to recommend to the Congress certain programs which he would like to see discontinued. Over 200 existing programs! Now we are being asked to consider and authorize more! Congress has considered and passed a multitude of housing legislation since 1987. When are we going to stop and allow these programs to work?

I look forward to reviewing this legislation and working on a bipartisan basis with the Administration to address these proposals in a responsible manner.

OPENING STATEMENT
SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS SUBCOMMITTEE ON HOUSING
AND COMMUNITY DEVELOPMENT

Washington, DC
April 28, 1994



The Housing Choice and Community Investment Act 1994

by

SECRETARY HENRY G. CISNEROS

Thank you, Mr. Chairman and Members of the Committee, for giving me the opportunity to present our proposed reauthorization legislation, the Housing Choice and Community Investment Act of 1994. We are very grateful to you, Senator Riegle, for your forceful advocacy on behalf of our empowerment zone initiative and community economic development efforts, and for the spirit of cooperation and partnership you have brought to working with us at HUD. We look forward to continuing our strong working relationship with you and your Committee in the months and years ahead.

Mr. Chairman, the introduction of this bill comes at a critical time for our Nation's housing and communities. In the past year, the Administration has made solid progress on many key fronts. So far the economic recovery has created a net increase of more than two million new jobs, nearly double the private sector job growth of the previous four years, with a solid foundation for another two million new jobs in 1994. After a decade of decline and stagnation, the national rate of home ownership rose significantly in 1993, creating more than 400,000 new homeowners, including many young first-time buyers. We expect this positive home ownership trend to continue in 1994.

Yet, along with these encouraging numbers and many other signs of change for the better, we still face tremendous challenges. The President's new Federal Plan will soon report that about seven million people were homeless at some point in the last half of the past decade and as many as 600,000 people are homeless on any given night. Poverty rose in the 1980's to its highest level in three decades, and child poverty grew even faster—more than one out of five children are now poor, including two out of five Hispanic children and nearly one out of two African-American children.

About three-quarters of our Nation's growing poverty population is concentrated in central-city and other metro areas. Some neighborhoods have become the focal points not just for joblessness but crime, violence, drugs, homelessness and inadequate housing, racial and ethnic segregation, redlining, and economic discrimination. Today in America, a child dies of gunshot wounds every two hours. Youth unemployment in many of these neighborhoods is as high as 70 or 80 percent.

Our special challenge is to bring the people who live in these communities back into the mainstream of American life, by stimulating community reinvestment to create safe, healthy, and economically viable neighborhoods where they now live, and by generating real job and housing opportunities that enable low-income residents to choose where they live and work throughout metropolitan areas.

Mr. Chairman, we stand at a crossroads: We can follow the troubled course of the past decade, or we can continue to change course, as we have in the past year, and breathe new life and hope into distressed communities and revive the economic fortunes of cities and suburbs alike.

Changing course means abandoning failed Government policies that contributed to the current crisis by concentrating very-low-income families in dense, high-rise public housing projects and by discouraging poor people from seeking work. It means abandoning lending practices which have cut off the flow of private capital to poor communities. It means changing the way we think about how Federal, State, and local government, cities and suburbs, and the public and private sectors relate to each other.

The growing difficulties of too many communities has fueled the belief that there is no hope of reversing course. But hope is sprouting all around us:

- In Baltimore, a group called Community Building in Partnership is transforming the Sandtown-Winchester neighborhood by improving health care and education, creating jobs and businesses, removing abandoned housing, and building 300 affordable home ownership townhomes.
- In Louisville, the Russell Partnership is changing one of the Nation's ten most impoverished urban neighborhoods into a beacon of hope and opportunity, creating 400 new jobs and cutting the crime rate in half. The Louisville Housing Authority has successfully turned public housing in the neighborhood into private home ownership for low-income residents.
- In Chicago, the "Gautreaux" initiative—the model for HUD's Moving to Opportunity program—has successfully enabled more than 4,500 low-income families to move from inner-city poverty to suburban communities. In most cases, these families have successfully shifted from welfare to work and found better schools, safer streets, higher incomes, and socially integrated lives for their children.
- In Portland, Oregon, city and county officials have opened the doors to self-sufficiency for homeless people through a program which combines alcohol and drug abuse treatment, and mental health counseling with employment opportunities.

The Housing Choice and Community Investment Act of 1994 builds on these and many other success stories. It is informed by an understanding that real changes touching people's lives happen at the community level, and that the Federal Government's role must be to support and facilitate self-sustaining community-based partnerships for change. It is reinforced by HUD's commitment to pay special attention to meeting the needs of the poorest and most vulnerable people in our society. Most importantly, it is animated by two fundamental principles that shape our legislation: *Choice for people and investment in communities.*

CHOICE FOR PEOPLE

In America, people should be able to live and work wherever their abilities, means, and dreams can take them. The Housing Choice and Community Investment Act of 1994 seeks to enable Americans to realize their full potential through a range of initiatives to help people move from welfare dependency to self-sufficiency, from unemployment to productivity, from homelessness to stable lives in permanent housing, from rental housing to home ownership, and from isolated islands of poverty to the wider mainstream of American economic life.

INVESTMENT IN COMMUNITIES

People must take responsibility for their own lives, but to do that, they need good schools for their children, safe streets and public spaces, clean, affordable housing, and employment opportunities. The Housing Choice and Community Investment Act of 1994 supports grassroots, community-based efforts to promote public and private investment in housing, businesses, physical improvements, and social services needed to transform distressed communities into places where people can lift themselves economically and improve their lives.

For more than a decade, the U.S. Department of Housing and Urban Development stood on the sidelines while people and communities across the country struggled for survival. The Housing Choice and Community Investment Act of 1994 will put HUD back in business as a force for positive change in America.

Overview of the Key Provisions of the Housing Choice and Community Investment Act of 1994

The Housing Choice and Community Investment Act of 1994 would authorize \$60 billion over the next two fiscal years for HUD's housing and community development programs. The Act establishes a strong foundation for implementing the President's housing and community investment agenda.

Mr. Chairman, five central priorities—reducing homelessness, turning around public housing, expanding and preserving affordable housing and home ownership, ensuring fair housing for all, and empowering communities—underlie our 1994 legislation.

Priority 1: Reducing Homelessness

Throughout the 1980's and early 1990's, the number of homeless people on America's streets steadily increased. In the absence of any large-scale Federal commitment to confront this problem, local governments and nonprofit groups were left to deal with it alone. The result was an ad hoc, fragmented system of soup kitchens and emergency shelters which addressed the symptoms rather than the causes of homelessness. This approach has not solved the problem.

The Housing Choice and Community Investment Act of 1994 puts the Federal Government in business as a leader and full partner in local communities' efforts to reduce the number of homeless Americans on their streets. The Act:

- *Would double Federal support for homeless-assistance initiatives.* More than \$1.7 billion would be authorized for homeless assistance in fiscal 1995, including \$100 million for special programs by local governments through our Innovative Homeless Fund.
- *Creates a new approach to homelessness.* The current patchwork quilt of food banks and emergency shelters would be replaced by a "continuum of care" which addresses the specific needs of homeless individuals and families—for job training and counseling, drug, alcohol, and mental health treatment, and other services—and moves them from the streets to permanent housing. Many of the existing McKinney Act homeless programs, including housing and emergency food and shelter programs, would be reorganized to give local governments the power to design and implement comprehensive strategies that meet local homeless needs.
- *Gives homeless people permanent housing.* As the final component in the continuum of care strategy, the Act would provide rental assistance to 15,000 formerly homeless individuals and families.

Priority 2: Turning Around Public Housing

Over the past several decades, Federal policies have transformed too much of our public housing into "warehouses for the poor." Various requirements and practices have led to the concentration of very-low-income families in dense, high-rise housing, in many cases discouraging residents from working.

Federal regulatory restrictions and micromanagement have frequently stifled local creativity and innovation. For example, public housing authorities have been compelled to use their modernization funds to renovate deteriorated, high-risk buildings even where it would be cheaper to demolish and replace these buildings with economically integrated, well-designed, small-scale, affordable housing. We have increasingly lost sight of the original goal of public housing—to create stable, healthy, mixed-income neighborhoods.

The Housing Choice and Community Investment Act would establish the foundation to transform the public housing program. The collective impact of these legislative initiatives could literally "change the urban landscape" by replacing high-rise buildings and overly concentrated developments with safe and proud communities. The Act:

- *Replaces distressed public housing.* The Act dramatically increases the resources available for public housing authorities to redesign and replace the Nation's most deteriorated public housing. HUD has already committed \$1 billion under our new HOPE VI program. The 94 Act would fundamentally re-vamp the modernization program by enabling funds to be used for demolition and replacement housing; and, for the first time, enable housing authorities to collectively borrow billions of dollars against future modernization funds, and leverage these borrowed resources with other public and private investments.
- *Fights crime.* Community policing, youth recreation and education, and other anti-crime activities would be encouraged and supported in Community Partnerships Against Crime, an expansion of the existing Public Housing Drug Elimination Grant program. COMPAC would encourage partnerships between residents, management, police, and surrounding neighborhoods. Other anti-crime initiatives include permission for local public housing authorities and owners of HUD-assisted housing to ban guns in their buildings through lease provisions.
- *Makes work pay.* Rent rules would be substantially revised to ensure that unemployed public housing residents who obtain a job or participate in employment training programs will not pay higher rent for at least 18 months. Rent increases for working families would be limited to encourage them to remain as residents. Also, admission rules that restrict public housing primarily to very-low-income people would also be modified to permit greater income diversity and include more working families among residents.
- *Promotes jobs for residents.* The Act would encourage jobs and small business opportunities for low-income residents. Real enforcement of section 3 of the 1968 Housing Act, for the first time since its passage, is designed to ensure that public housing residents share in the economic benefits of HUD-generated construction and services contracts. Economic Opportunity grants and Family Investment Centers would provide public housing residents job training, placement, and other services. Residents would receive greater support for community organizing through the Tenant Opportunity program, for which funding would be more than tripled.

Priority 3: Expanding Affordable Housing

Decent, affordable housing is essential to healthy communities, and a vital goal of public policy. For much of the last decade, HUD withdrew from its responsibility to promote affordable rental housing and affordable home ownership.

The Housing Choice and Community Investment Act puts the Federal Housing Administration back in the business of promoting affordable housing production and opens the doors of home ownership to Americans who until now have been locked out. The Act fosters new partnerships for housing production between Federal, State, and local governments, private business, and nonprofit groups. The Act:

- *Opens doors to home ownership.* The Act would make no-downpayment financing available to low- and moderate-income buyers who purchase homes in urban revitalization areas. It would make \$100 million available through the National Homeownership Fund Demonstration for downpayments, closing costs, second mortgage assistance, and other help for first-time homebuyers. The Act would more than quadruple funding for home ownership counseling for renters seeking to make the transition to buying a home.
- *Puts FHA back in business.* The Act would raise the maximum FHA mortgage amount from \$152,000 to \$172,000 in high-cost areas, to increase affordable home

financing opportunities for several million American households and improve the economic soundness of the FHA insurance fund. Other provisions of the Act would allow for greater flexibility and experimentation with new mortgage insurance products, allowing FHA to reclaim its role as an innovative leader in the Nation's mortgage markets.

- *Fosters partnerships.* The Act would authorize more than \$500 million—a fivefold increase over the money appropriated by Congress for this initiative in 1994—to leverage billions in pension fund and other private and public investment in affordable rental housing. The Act would also enable State housing finance agencies and Government-sponsored enterprises to undertake joint risk-sharing financing efforts with the FHA.

Priority 4: Enforcing Fair Housing

To fully pursue a better life for themselves and their children, Americans must have the opportunity to live in neighborhoods of their choice. To lift themselves to better economic futures, communities must have unfettered access to private and public investment.

For too long, the Federal Government failed to enforce laws guaranteeing all Americans freedom from discrimination in housing and lending markets, instead supporting programs which concentrated poor people in separate communities where they became isolated from their fellow citizens. Today, the Federal Government is actively ensuring that no one is barred from affordable housing or loan opportunities because of discrimination, that no communities are unfairly denied the capital they need for economic development, and that all Americans enjoy real housing choice. The Housing Choice and Community Investment Act:

- *Promotes real housing choice.* The Act would overhaul Section 8 rental assistance to give low-income families a meaningful opportunity to choose where to live throughout metropolitan areas. It would authorize \$149 million for the Choice in Residency program, including intensive counseling, housing search assistance, and other services.
- *Expands fair housing and fair lending enforcement.* The Act would significantly expand funding for State and local governments and nonprofits that assist the Federal Government in enforcing fair housing and fair lending laws. It also would give HUD resources to expand Federal oversight of fair lending violations and insurance redlining.
- *Provides rental assistance for the disabled.* For the first time, 5,000 Section 8 rental assistance certificates would be provided for low-income people with disabilities.

Priority 5: Empowering Communities

The Federal Government has a constructive role to play in community economic development—marshaling resources, serving as a catalyst, facilitator, and mediator, and in all cases, supporting and strengthening community-based development efforts.

Federal initiatives must promote community-wide solutions to community-wide problems, build on grassroots efforts, and expand employment opportunities for community residents. The Housing Choice and Community Investment Act:

- *Creates jobs.* The Act would authorize a series of initiatives to give communities the tools they need to generate economic development activity in low- and moderate-income neighborhoods. The Zone Economic Development Initiative would complement the Administration's ambitious Empowerment Zones and Enterprise Communities initiative, authorizing \$500 million for community-based economic development activities in these targeted areas. Neighborhood LIFT would authorize \$200 million for neighborhood-based, economic development activities such as retail, commercial, or mixed-use projects. The Act would also authorize \$150 million in grants to encourage local governments to use HUD's Section 108 loan guarantees, to collectively borrow up to \$2 billion annually for economic development. This program is expected to leverage an additional \$500 million in private-sector investment in community economic development.
- *Brings resources to the community.* HUD has already begun creating partnerships with communities through a new comprehensive approach to planning; the Act would provide resources to carry out these plans. It would continue full funding for Community Development Block Grants. The Home program would be reauthorized at \$1 billion, and would include a new loan guarantee program to help localities leverage significant additional resources for affordable housing.
- *Promotes grassroots efforts and regional collaboration.* A new \$150 million Community Viability Fund would build the capacity of community-based groups and institutions, support the design and development of public amenities, encourage

strategic neighborhood and metropolitan planning, and strengthen the citizen participation that enhances community stability and growth.

Mr. Chairman, in order to make fully effective our proposed legislative changes in existing programs and our new initiatives, the Department in the past year has designed and implemented a very ambitious reinvention plan. We have reorganized our headquarters and field structure, consolidated, streamlined, and eliminated operations and programs, and we are substantially improving our management and service delivery to our customers.

The Housing Choice and Community Investment Act contains many provisions to further increase budget savings and program efficiency—through administrative reforms, program reductions, faster recapture of unspent grant funds, tougher enforcement measures, and stiffer monetary penalties against corruption and abuse by HUD clients.

Mr. Chairman, when I see that nine million Americans lack decent, safe, affordable housing, when I see thousands of young people hanging out on street corners for lack of jobs, and when I see these same youth shooting each other for drug money and gang pride in Chicago's Robert Taylor Homes, I know that the woman, tired of the violence and poverty, was speaking the truth when she touched my arm and said, "Let's make it stop." It is time to act. We believe this legislation—for Housing Choice and Community Investment—will make a profound difference in people's lives. We will work with you to make that difference.

Thank you.

FY 1995 Budget
(Billions of Dollars)

FY 94 FY 95 Diff.

Budget

Authority

Outlays

25.1

26.1

1.0

27.5

29.5

2.0

HUD PRIORITIES

- Reduce Homelessness
- Turn Around Public Housing
- Expand Housing Production and Preserve the Supply of Affordable Housing
- Ensure Fair Housing for All Americans
- Help Communities Empower Themselves
- Bring Excellence to Management

PRIORITY: REDUCE HOMELESSNESS

(Millions of Dollars)

	<u>FY '94</u>	<u>FY'95</u>	<u>Difference</u>
McKinney Act	\$823	\$1,120	+ \$297
Section 8 Rental Assistance	----	<u>\$514</u>	+ <u>\$514</u>
Total HUD Assistance	\$823	\$1,634	+ \$811
FEMA	<u>\$130</u>	<u>\$130</u>	----
Grand Total	\$953	\$1,764	+ \$811

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Difference</u>
Severely Distressed PH	\$778	\$500	- \$278
Modernization	\$3,230	\$2,786	- \$444
[Tenant Opportunity Program]	[\$25]	[\$85]	[+ \$60]
Operating Subsidies	\$2,620	\$2,496	- \$124
COMPAC	\$265	\$265	----
Jobs for Residents	\$88	\$134	+ \$46

**PRIORITY: EXPAND HOUSING PRODUCTION AND
PRESERVE THE SUPPLY OF AFFORDABLE HOUSING**

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Difference</u>
Homeownership			
Mutual Mortgage Ins. Fund	\$84,565	\$84,981	+ \$316
GNMA Mortgage-Backed Securities	\$130,000	\$130,000	----
Nat'l Homeownership Trust	----	\$100	+ \$100
Homeownership Counseling	\$12	\$50	+ \$38
HOPE Homeownership Grants	\$109	\$100	- \$9
Rental			
Incremental Rental Assistance	\$1,327	\$2,743	+ \$1,416
[Pension Fund Certificates]	[\$100]	[\$514]	[+ \$414]
Multifamily Insurance	\$15,436	\$19,685	+ \$4,249
HOME	\$1,275	\$1,000	- \$275

PRIORITY: ENSURE FAIR HOUSING FOR ALL AMERICANS

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Difference</u>
Moving to Independence Counseling	----	\$149	+ \$149
Fair Housing Enforcement	\$25	\$33	+ \$8
Metropolitan-Wide Strategies	----	\$24	+ \$24
Persons with Disabilities	\$387	\$557	+ \$170

PRIORITY: HELP COMMUNITIES EMPOWER THEMSELVES

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Difference</u>
CDBG	\$4,400	\$4,400	----
[Neighborhood LIIFT]	[----]	[\$200]	[+ \$200]
Empowerment Zones	----	\$500	+ \$500
Community Viability Fund	----	\$150	+ \$150
[NCDI]	[\$20]	[\$20]	[----]
Economic Revitalization	----	\$150	+ \$150
Colonias	----	\$100	+ \$100

PRIORITY: BRING EXCELLENCE TO MANAGEMENT

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Difference</u>
Staffing (FTEs)	13,290	13,374	+ 84

Training	\$6.4	\$8.1	+ \$1.7
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Systems Development	\$48.5	\$55.0	+ \$6.5
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SAVINGS FROM PROGRAM REFORMS HIGHLIGHTS

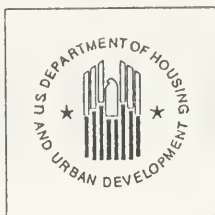
(Millions of Dollars)

	<u>FY '95</u>	<u>Total FY '95-'99</u>
Verify Tenant Incomes	NA	(\$1,586.0)
Reduce Section 8 Fair Market Rents	(\$28.5)	(\$567.3)
Limit High-Cost Units (New Construction/ Substantial Rehabilitation)	(\$110.0)	(\$1,430)
Refinance High Debt	(\$2.0)	(\$110.0)
Decrease Loan Management Units	(\$55.0)	(\$818.0)
Reduce Section 8 Admin. Fees	(\$86.8)	(\$461.5)
Cap Rent Increases for "Stayers"	(\$77.0)	(\$881.0)
Create New Federal Preference for Working Families	(\$77.4)	(\$990.9)

OTHER PROGRAM REDUCTIONS

(Millions of Dollars)

	<u>FY '94</u>	<u>FY '95</u>	<u>Reduction</u>
Preservation	\$541	----	- \$541
PH Development	\$598	\$150	- \$448
Elderly Housing	\$1,158	\$150	- \$1,008
Lead-Based Paint Reduction	\$150	\$100	- \$50
Congregate Services	\$25	\$6	- \$19



U.S. DEPARTMENT
OF
HOUSING AND URBAN DEVELOPMENT

Senate Banking, Housing and Urban Affairs Committee
Hearing on the Housing Choice and Community Investment Act of 1994

Fiscal Year 1995 Top New Initiatives

April 28, 1994

The Housing Choice and Community Investment Act of 1994

After a generation of neglect, American communities are in crisis. Our larger urban centers are perilously close to collapsing under the weight of poor, mostly minority populations who have been isolated in inner-city communities where jobs have disappeared, decent, affordable housing is unavailable, home ownership is out of reach, and drugs, crime, and violence are rampant. Suburban communities which once seemed immune from many of these problems are feeling their impact.

The seriousness of the crisis facing us today is underscored by grim facts:

- The rate of violent crime in America increased from 161 incidents per 100,000 people in 1960 to 758 per 100,000 in 1992. Today in America, a child dies of gunshot wounds every two hours.
- Poverty is at its highest level in three decades, and more than 75 percent of our Nation's growing population of poor people are concentrated in inner-city and inner-suburban communities.
- Jobs are vanishing in these communities. Between 1980 and 1990, manufacturing employment declined nearly 11 percent in America's urban centers. In Philadelphia alone, 110,000 jobs were lost between 1987 and 1994.
- Ten million Americans lack decent, affordable housing. According to the Center on Budget and Policy Priorities, the United States went from a nationwide surplus of 400,000 affordable rental units in 1970 to a shortage of 4.1 million units in 1989. Since then, the situation has only grown worse.

These statistics underscore the economic and social disintegration that is reaching out to engulf all of us, no matter where we live. In monetary costs alone, it threatens to overwhelm us.

Consider the costs we bear when a child is shot. According to the National Association of Children's Hospitals and Related Institutions, in 1991, it cost, on average, more than \$14,000—in hospital charges alone—to treat a child struck down by gunfire.

Many of the young people killed and maimed by guns come from poor inner-city families who are either covered by Medicaid or who lack health insurance. In either case, the cost of their medical care is borne by taxpayers.

Wherever we live—city or suburbs, urban or rural America—we all pay a price for the disintegration of our communities. The greater metropolitan areas ringing our cities cannot flourish if their centers are falling apart.

Income statistics compiled by former Albuquerque mayor David Rusk tell the tale: Between 1949 and 1989, in areas where the incomes of central-city families grew 113 percent, metropolitanwide family incomes grew 142 percent. But in areas where central-city family income increased only 55 percent, metropolitanwide family incomes grew just 100 percent. In those places, in other words, lagging central-city economies imposed a 42-percent tax on income growth in surrounding areas.

Clearly, we can no longer afford to stand by while our central cities, aging inner suburbs, and other communities around the Nation fail.

We stand at a fateful crossroads today: We can continue as we have for more than a decade, on a course that can only lead to further disintegration, or we can change course and breathe new life and hope into distressed communities.

Changing course means abandoning failed Government policies that have contributed to the current crisis by concentrating very-low-income families in dense, high-rise public housing projects and by discouraging poor people from seeking work. It means abandoning lending practices which have cut off the flow of private capital to poor communities. It means changing the way we think about how Federal, State, and local government, cities and suburbs, and the public and private sectors relate to each other.

The growing distress of too many communities has fueled the belief that there is no hope of reversing course. But hope is sprouting all around us:

- In Baltimore, Maryland, a group called Community Building in Partnership is transforming the Sandtown-Winchester neighborhood by improving health care and education, creating jobs and businesses, removing abandoned housing, and building 300 affordable townhomes.
- In Louisville, Kentucky, the Russell Partnership is changing one of the Nation's ten most impoverished urban neighborhoods into a beacon of hope and opportunity, creating 400 new jobs and cutting the crime rate in half. The Louisville Housing Authority has successfully turned public housing in the neighborhood into private home ownership for low-income residents. Community residents, city officials, universities, corporations, and foundations are working in partnership to rebuild housing and infrastructure, establish a community development bank, and attract millions of dollars in public and private investment.
- In Chicago, Illinois, the "Gautreaux" program that emerged from a long-standing court battle over racial segregation in public housing has successfully enabled more than 4,500 low-income families to move from inner-city poverty to suburban communities. In most cases, these families have successfully shifted from welfare to work and found better schools, safer streets, higher incomes, and socially integrated lives for their children. A new national housing subsidy program, called Moving to Opportunity, was started in 1993 based on the success of the Gautreaux model.
- In Portland, Oregon, city and county officials have opened the doors to self-sufficiency for homeless people through a program which combines alcohol and drug abuse treatment, and mental health counseling with employment opportunities.

The Housing Choice and Community Investment Act of 1994 builds on such success stories as these. It is informed by an understanding that real change happens at the grassroots, and that the Federal Government's role must be to support and facilitate self-sustaining community-based partnerships for change. It is animated by a strategy that promotes choice for people and investment in communities.

CHOICE FOR PEOPLE

In America, people should be able to live and work wherever their abilities, means, and dreams can take them. The Housing Choice and Community Investment Act of 1994 seeks to enable Americans to realize their full potential through a range of initiatives to help people move from welfare dependency to self-sufficiency, from unemployment to productivity, from homelessness to stable lives in permanent housing, from rental housing to home ownership, and from isolated islands of poverty to the wider mainstream of American economic life.

INVESTMENT IN COMMUNITIES

People must take responsibility for their own lives, but to do that, they need good schools for their children, safe streets and public spaces, clean, affordable housing, and employment opportunities. The Housing Choice and Community Investment Act

of 1994 supports grassroots, community-based efforts to promote public and private investment in housing, businesses, physical improvements, and social services needed to transform distressed communities into places where people can lift themselves economically and improve their lives.

For more than a decade, the U.S. Department of Housing and Urban Development stood on the sidelines while people and communities across the country struggled for survival. The Housing Choice and Community Investment Act of 1994 will put HUD back in business as a force for positive change in America.

Overview of the Key Provisions of the Housing Choice and Community Investment Act of 1994

The Housing Choice and Community Investment Act of 1994 would authorize \$60 billion over the next two fiscal years for HUD's housing and community development programs. The Act establishes a strong foundation for implementing the President's housing and community investment agenda.

Five central priorities—reducing homelessness, turning around public housing, expanding and preserving affordable housing and home ownership, ensuring fair housing for all, and empowering communities—underlie our 1994 legislation.

Priority 1: Reducing Homelessness

Throughout the 1980's and early 1990's, the number of homeless people on America's streets steadily increased. In the absence of any serious Federal commitment to confront this problem, local governments and nonprofit groups were left to deal with it alone. The result was an ad hoc, fragmented system of soup kitchens and emergency shelters which addressed the symptoms rather than the causes of homelessness. This approach has failed.

The Housing Choice and Community Investment Act of 1994 puts the Federal Government in business as a leader and full partner in local communities' efforts to reduce the number of homeless Americans on their streets. The Act:

- *Doubles Federal support for homeless-assistance initiatives.* More than \$1.7 billion would be authorized for homeless assistance in fiscal 1995, including \$100 million for special innovative programs by local governments.
- *Creates a new approach to homelessness.* The current patchwork quilt of feeding programs and emergency shelters would be replaced by a "continuum of care" which addresses the specific needs of homeless individuals and families—for job training and counseling, drug, alcohol, and mental health treatment, and other services—and moves them from the streets to permanent housing. Existing McKinney Act homeless programs would be reorganized to give local governments the power to design and implement comprehensive strategies that meet local homeless needs.
- *Gives homeless people permanent housing.* As the final component in the continuum of care strategy, the Act would provide rental assistance to 15,000 formerly homeless individuals and families.

Priority 2: Turning Around Public Housing

Over the past several decades, Federal policies have transformed too much of our public housing into "warehouses for the poor." Various requirements and practices have led to the concentration of very-low-income families in dense, high-rise housing, and have in many cases discouraged residents from working.

Federal regulatory restrictions and micromanagement have frequently stifled local creativity and innovation. For example, public housing authorities are compelled to use their modernization funds to renovate deteriorated, high-risk buildings even where it would be cheaper to demolish and replace these buildings with economically integrated, well-designed, small-scale, affordable housing. We have increasingly lost sight of the original goal of public housing—to create stable, healthy, mixed-income neighborhoods.

The Housing Choice and Community Investment Act would establish the foundation to transform the public housing program. The collective impact of these legislative initiatives could literally "change the urban landscape" by replacing high-rise buildings and overly concentrated developments with safe and proud communities. The Act:

- *Replaces distressed public housing.* The Act dramatically increases the resources available to enable PHA's to redesign and replace the Nation's most deteriorated public housing. We've already committed \$1 billion under the ambitious HOPE VI program. The Act would fundamentally re-vamp the modernization program by enabling funds to be used for demolition and replacement housing; and, for the first time, enable PHA's to leverage billions of dollars by borrowing against future

modernization funds, and by leveraging the borrowed resources with other public and private investment.

- *Makes work pay.* Rent rules would be substantially revised to ensure that unemployed public housing residents who obtain a job or participate in employment training programs will not pay higher rent for at least 18 months. Rent increases for working families will be limited to encourage them to remain as residents. Also, admission rules that restrict public housing primarily to very-low-income people would also be modified to permit greater income diversity and include more working families among residents.
- *Promotes jobs for residents.* The Act will encourage jobs and small business opportunities for low-income residents. Real enforcement of section 3 of the 1968 Housing Act, for the first time since its passage, will ensure that public housing residents share in the economic benefits of HUD-generated construction and services contracts. Economic Opportunity grants and Family Investment Centers will provide public housing residents job training, placement, and other services. Residents would receive greater support for community organizing through the Tenant Opportunity program, for which funding would be more than tripled.
- *Fights crime.* Community policing, youth recreation and education, and other anti-crime activities would be encouraged and supported in Community Partnerships Against Crime, an expansion of the existing Public Housing Drug Elimination Grant program. COMPAC, as it is known, encourages partnerships between residents, management, police, and surrounding neighborhoods. Other anti-crime initiatives include permission for local public housing authorities and owners of HUD-assisted housing to ban guns in their buildings through lease provisions.

Priority 3: Expanding Affordable Housing

Decent, affordable housing is essential to healthy communities, and a vital goal of public policy. For the last decade, the Federal Government was in withdrawal from its responsibility to promote affordable rental housing and affordable home ownership.

The Housing Choice and Community Investment Act puts the Federal Housing Administration back in the business of promoting affordable housing production and opens the doors of home ownership to Americans who have been locked out in the past. The Act fosters new partnerships for housing production between Federal, State, and local governments, private business, and nonprofit groups. The Act:

- *Puts FHA back in business.* The Act would raise the maximum FHA mortgage amount from \$152,000 to \$172,000 in high-cost areas, to increase affordable home financing opportunities for two million American homeowners and improve the economic soundness of the FHA insurance fund. Other provisions of the Act allow for greater flexibility and experimentation with new mortgage insurance products, allowing FHA to reclaim its role as an innovative leader in the Nation's mortgage markets.
- *Opens doors to home ownership.* The Act would make no-downpayment financing available to low- and moderate-income buyers who purchase homes in urban revitalization areas. It would make \$100 million available through the National Homeownership Trust Fund for downpayments, closing costs, second mortgage assistance, and other help for first-time homebuyers. The Act would more than quadruple funding for home ownership counseling for renters seeking to make the transition to buying a home.
- *Fosters partnerships.* The Act would authorize more than \$500 million to leverage over \$5 billion in pension fund and other private and public investment in affordable rental housing—a fivefold increase over the money appropriated by Congress for this initiative in 1994. The Act would also enable State housing finance agencies and Government-sponsored enterprises to undertake joint financing efforts with the FHA.

Priority 4: Enforcing Fair Housing

To fully pursue a better life for themselves and their children, Americans must have the opportunity to live in neighborhoods of their choice. To lift themselves to better economic futures, communities must have unfettered access to private and public investment.

For too long, the Federal Government failed to enforce laws guaranteeing all Americans freedom from discrimination in housing and lending markets, instead supporting programs which concentrated poor people in separate communities where they became isolated from their fellow citizens. Today, the Federal Government is active in the business of ensuring that no one is barred from affordable housing or loan opportunities because of discrimination, that no communities are unfairly denied the capital they need for economic development, and that all Ameri-

cans enjoy real housing choice. The Housing Choice and Community Investment Act:

- *Expands fair housing and fair lending enforcement.* The Act would significantly expand funding for State and local governments and nonprofits that assist the Federal Government in enforcing fair housing and fair lending laws. The Act would also give HUD resources to expand Federal oversight of fair lending violations and insurance redlining.
- *Promotes real housing choice.* The Act would overhaul the Section 8 rental assistance program to give low-income families a meaningful opportunity to choose where to live throughout metropolitan areas. The Act would authorize \$149 million—20 times the current funding level—for intensive counseling, housing search assistance, and other services.
- *Provides rental assistance for the disabled.* For the first time, 5,000 Section 8 rental assistance certificates would be provided for low-income people with disabilities.

Priority 5: Empowering Communities

The Federal Government has a constructive role to play in community economic development—marshaling resources, serving as a catalyst, facilitator, and mediator, and in all cases, supporting and strengthening community-based development efforts.

Federal initiatives must promote community-wide solutions to community-wide problems, build on grassroots efforts, and expand employment opportunities for community residents. The Housing Choice and Community Investment Act:

- *Brings resources to the community.* HUD has already begun creating partnerships with communities through a new comprehensive approach to planning; the Act would provide resources to carry out these plans. It would continue full funding for Community Development Block Grants. The Home program would be reauthorized at \$1 billion, and would include a new loan guarantee program to help localities leverage significant additional resources for affordable housing.
- *Promotes grassroots efforts and regional collaboration.* A new \$150 million Community Viability Fund would build the capacity of community-based groups and institutions, support the design and development of public amenities, encourage strategic neighborhood and metropolitan planning, and strengthen the citizen participation that enhances community stability and growth.
- *Creates jobs.* The Act would authorize a series of initiatives to give communities the tools they need to generate economic development activity in low- and moderate-income neighborhoods. Neighborhood Leveraged Investments for Tomorrow (LIFT) would authorize \$200 million for neighborhood-based, economic development activities such as retail, commercial, or mixed-use projects. The Zone Economic Development Initiative would complement the Administration's ambitious Empowerment Zones and Enterprise Communities initiative, authorizing \$500 million for community-based economic development activities in these targeted areas. The Act would also authorize \$150 million in grants to encourage local governments to use HUD's Section 108 loan guarantees, to collectively borrow up to \$2 billion annually for economic development. This program is expected to leverage an additional \$500 million in private-sector investment in community economic development.
- *Provides vital assistance to the Colonias.* The Colonias are areas along the southwestern border that lack basic necessities such as decent and safe housing, a sanitary water supply, paved roads, and adequate drainage and sewage systems. The Act provides \$100 million to rebuild these areas, dramatically improving the physical conditions and quality of life.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES
FROM HENRY G. CISNEROS**

Q.1. You spoke about the effect preference rules will have on operating subsidies during your dialog before the Senate Banking Committee. How will the preference rules reduce needs for operating subsidies? When can we expect to see the proposed rule on Federal preferences? Once approved, how fast will this rule be implemented?

A.1. The preference rule will give housing agencies (HA's) the discretion to admit local preference holders in up to half of all public housing admissions. HUD expects that many HA's will adopt local preferences for working families or for families whose incomes are somewhat higher than the incomes of present tenants. The higher rent that these families will be able to pay is expected, eventually, to reduce the level of operating subsidy HA's need. At present, many public housing developments are occupied by only the very lowest income families.

The final rule was published in the *Federal Register* on July 18, 1994. It becomes effective 30 days after publication. However, housing agencies may, if they wish, continue to use their current local preferences for up to 6 months after publication, to allow them time to conduct the public hearings the law requires before new local preferences can be adopted. HUD's 1994 field operating plan directs HUD field offices to make sure that HA's are taking full advantage of the changes the preference rule permits to improve the distribution of incomes among public housing tenants.

Q.2. During your dialog, you stated that a quarter of the housing authorities or cities which house 400,000 people total, are troubled. Who is at fault? Are the units troubled or is it the Authorities? Please elaborate on this and supply us with any documentation that may be fitting to these numbers.

A.2. The Department determines whether a public housing agency (PHA) is troubled based on a PHA's Public Housing Management Assessment Program (PHMAP) score. Under the PHMAP, a PHA that achieves a total weighted PHMAP score of less than 60 percent is designated as troubled; and a PHA that achieves a total weighted modernization score (based only on indicator #2, modernization, of the PHMAP) of less than 60 percent is designated as mod-troubled.

Under the PHMAP, PHA's are designated as troubled due to management deficiencies. Troubled PHA's usually have systemic problems; they have poor management practices in several overlapping areas, such as vacancies, rent collection, unit turnaround, outstanding work orders, condition of units, and other financial management areas.

An analysis of scores for the FFY 1992 PHMAP assessments shows that at least 10 percent or more PHA's received a grade of F for the following PHMAP indicators/components: (1) unexpended modernization funds over 3 FFY's old; (2) timeliness of modernization fund obligation; (3) energy consumption; (4) vacant unit turnaround; (5) tenant accounts receivable; and (6) routine operating expenses.

The PHMAP assesses a PHA's overall management capabilities, rather than on a project-by-project or building-by-building basis. Therefore, PHMAP designates specific PHA's as troubled, rather than units or buildings. In many cases, units or buildings could be classified as "troubled" due to lack of preventive maintenance, lack of modernization, and/or poor management on the part of the PHA. These units and/or buildings are classified as "distressed," and a national listing of distressed units and/or buildings is not available.

The following is a listing of cities with a population of over 400,000, with the cities with troubled PHA's in their jurisdictions highlighted.

<i>City</i>	<i>Population</i>	<i># PHA Units</i>
New York City, NY	7,322,560	156,089
Los Angeles City, CA	3,485,400	8,873
Chicago, IL	2,783,730	40,119
Houston, TX	1,630,550	3,617
Detroit, MI	1,027,970	8,744
Dallas, TX	1,006,880	7,007
San Antonio, TX	935,933	8,038
Seattle, WA	516,259	6,642
El Paso, TX	515,342	6,254
Cleveland, OH *	505,616	12,068
Fort Worth, TX	447,619	1,426

*The Cuyahoga Metropolitan Housing Authority's (Cleveland) troubled designation was removed June 1994.

Total Number of Units in Cities with a Population of over 400,000	258,877
Total Number of Units in Troubled PHA's in Cities with a Population of over 400,000	48,863
Total Number of Units in Troubled PHA's in Cities with a Population of over 400,000, including the Cuyahoga Metropolitan Housing Authority	60,931

The following is a listing of the 40 largest PHA's, with the troubled PHA's highlighted. The total number of units at the troubled PHA's is 176,440.

<i>PHA Name</i>	<i># Units</i>
New York City, NY	156,089
Puerto Rico PHA, RQ	57,800
Chicago, IL	40,119
Philadelphia, PA	22,766
Baltimore, MD	18,088
Atlanta, GA	14,722
New Orleans, LA	13,414
Boston, MA	12,599
Cuyahoga, OH	12,068
DPAH, DC	11,786
Newark, NJ	11,553
Dade County, FL	11,474
Pittsburgh, PA	9,388
Los Angeles City, CA	8,873
Detroit, MI	8,744

<i>PHA Name</i>	<i># Units</i>
San Antonio, TX	8,038
Cincinnati, OH	7,618
Memphis, TN	7,089
Dallas, TX	7,007
Birmingham, AL	6,918
St. Louis, MO	6,909
San Francisco, CA	6,833
Minneapolis, MN	6,750
Seattle, WA	6,642
MDHA (Nashville), TN	6,429
El Paso, TX	6,254
Louisville, KY	5,971
Columbus, OH	5,374
Hawaii, HI	5,213
Akron, OH	5,059
Buffalo, NY	5,046
Tampa, FL	4,936
Milwaukee, WI	4,699
Virgin Islands, VQ	4,479
Richmond, VA	4,461
Norfolk, VA	4,457
Dayton, OH	4,431
St. Paul, MN	4,346
Mobile, AL	4,192
Denver, CO	4,081

Total Number of Units in the 40 largest PHA's	552,715
Total Number of Units in Troubled PHA's	176,440
Total Number of Units in Troubled PHA's, including the Cuyahoga Metropolitan Housing Authority (Cleveland)	188,508

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR D'AMATO
FROM HENRY G. CISNEROS**

Q.1.A. Institutionalizing Homelessness. Why double the amount of money for homeless assistance? It would seem to make more sense to invest in permanent affordable housing, rather than institutionalizing homelessness as a program.

A.1.A. The 1995 Budget provides \$1.764 billion for HUD homeless assistance programs, double the fiscal year 1994 appropriation level. Direct funding for the consolidated/reorganized programs will increase from \$822.7 million in 1994 to \$1.12 billion (excluding \$130 million in FEMA funds) in 1995. Included in the \$1.764 billion is a request for over \$514 million for 15,000 5-year certificates to help previously homeless families obtain permanent rental housing in the private market. These certificates provide the vital link in the continuum of care that helps homeless families make the successful transition from temporary shelter to permanent housing.

The focus of the new continuum of care approach is to ensure a balanced development and utilization of resources for emergency, transitional, and permanent housing for homeless persons and families. The reorganization proposal does not institutionalize homelessness as a program, rather it permits communities to focus their intellect, energies, and resources on effective intervention facilities and services. These facilities and services, together with prevention

strategies and better linkage with mainstream programs, will ensure that communities can address incidences of homelessness.

Q.1.B. Need for HHS Homeless Program Reorganization.

While your Department proposes to "block grant" McKinney homeless monies, much of the need of homeless persons is for services. I don't see a block grant proposal for those services in the Health and Human Services budget. Why not? What conversation and coordination have you had with Secretary Shalala about this issue?

A.1.B. The McKinney reorganization proposal is different from a block grant proposal because it will involve more than transferring funds by a formula to communities. States and localities will have to carefully assess the existing relationships between emergency, transitional, and permanent housing and related supportive services and the unique needs of the local homeless populations. This comprehensive assessment of resources and needs will involve a community planning board representing the interests of homeless persons, service providers, and Government. This system will insure that the important service needs of many homeless persons will be addressed and these services are eligible activities under this proposal. HUD would be required to approve a continuum of care plan as prerequisite to receipt of funds.

The Department consulted extensively with HHS in developing the new *Priority: Home! The Federal Plan to Break the Cycle of Homelessness*, that was just released. HUD and HHS continue to consult and collaborate on a number of joint initiatives. These range from joint funding of technical assistance for special homeless populations to conducting joint reviews of applications for each agency's programs.

Q.2.A. Approximately 1.4 million units of public housing are home to nearly 4 million people. The living conditions of some of these developments are appalling and frequently life-threatening. A 1992 report by a congressionally-established commission found that we need somewhere between \$15 billion and \$30 billion to completely modernize public housing.

But at the same time we hear reports that some \$7 billion of modernization funding is backlogged in the system—it cannot get out of the bureaucracy to do its intended job. This backlog, in turn, has prompted suggestions that the modernization budget be cut significantly to give public housing authorities a chance to use funds already in the pipeline.

What is HUD doing to unclog the backlog and spend down the modernization funds at a faster rate?

A.2.A. The Department has taken a number of steps to unclog the backlog. These steps have included: (1) regular meetings with industry groups to solicit ideas for expediting the pipeline; (2) memoranda and conference calls to HUD field staff regarding ways to provide technical assistance to those HA's with the largest pipelines; (3) issuance of HUD Notices to HA's to convey revised program procedures to simplify funding approval and implementation; (4) issuance of a revised rule to simplify the Comprehensive Improvement Assistance Program (CIAP) for HA's with fewer than 250 units; (5) publication of a proposed rule to streamline further the Comprehensive Grant Program (CGP) for HA's with 250 or

more units. [Note: a final rule is in Departmental clearance and should be published August 1994]; (6) provision of increased oversight by HUD through establishment of the Headquarters' Office of Distressed and Troubled Housing; and (7) contracting with the U.S. Army Corps of Engineers to inspect modernization work in progress. In addition, detailed HUD staff assistance is being provided for large, troubled HA's, such as Chester, PA; Philadelphia, PA; Washington, DC; Kansas City, MO; and East St. Louis, IL.

Q.2.B. What reasons have you found for the funding backlog?

A.2.B. The major problems contributing to the backlog include the following: (1) litigation concerning procurement; (2) need to reprogram funds to meet the statutory deadline for LBP testing; (3) delays caused by discovery of hazards due to lead paint and asbestos; (4) reluctance to move ahead with comprehensive modernization until enough funds are available for the entire effort; (5) need to reprogram leftover funds because the soft construction market in some areas has resulted in bids received at a lesser cost than the original estimate; and (6) lack of staff capacity at HA's.

Q.2.C. How can release of funds be accelerated?

A.2.C. HUD expects to accelerate the release of modernization funds in FFY 1995. Comments have been received on a proposed rule amending the Comprehensive Grant Program (CGP) for HA's with 250 or more units which was published in the *Federal Register* on March 8, 1994. The comments have been reviewed and analyzed and a final rule is in Departmental clearance. It is anticipated that the final rule will be published in the *Federal Register* in August 1994. The final rule will greatly streamline the CGP, provide HA's with even greater flexibility, and allow HUD to make funds available early in fiscal year 1995. The rule, which is the result of extensive industry consultation, provides for only one formula amount in each fiscal year, rather than a presumptive and a final formula amount. HA's would be permitted the option of holding the resident meetings and public hearing on the basis of the current year's formula amount so that when the appropriations have been made and HUD issues the formula amount to each HA, the HA may immediately submit its documents for review and approval. Also, HUD will reduce its review time from 75 days (the statutory review period) to 14 days wherever possible. It is anticipated that HA's that use this process could have access to fiscal year 1995 funds in the first quarter of the FFY.

Q.2.D. Will streamlining of HUD's regional structure have an impact on funds released?

A.2.D. The reorganization of HUD's field structure is new and it is not possible at this point to determine how much of an impact it will have on the modernization program. Much of the responsibility for implementing the program has been delegated to the Field Office and this will definitely expedite approval of various documents, waiver requests, etc. Anytime a level of review is eliminated, there is great potential for a real impact on accelerating program delivery.

Q.3. It is my understanding that HUD is putting together a plan that would force local and State governments to make serious ef-

forts to eliminate racial discrimination in housing or face losing Government funding. Would this be, in effect, a carrot and stick approach to fair housing by threatening jurisdictions with the revocation of their funding in such programs as CDBG and HOME? Explain this process and how it will work. What statutory authority is HUD using to withhold appropriated funds by Congress?

A.3. HUD is developing a regulation to implement the requirement which Congress placed in title I in 1983 requiring every recipient of CDBG assistance to certify that it will affirmatively further fair housing. Similar statutory requirements appear in the HOME program and the legislation creating the CHAS. The certification is not limited to these programs and includes both publicly-assisted and private housing within a jurisdiction.

The proposed rule will require each Entitlement community (and State) to develop an analysis of impediments to fair housing and develop a plan to address these impediments. Communities which have not previously developed an analysis (more than 100 communities have done so since the concept was introduced as a "safe harbor" in HUD's 1989 CDBG regulations) would have 1 year from the date of HUD's final regulation to do so. The fair housing plan (analysis plus action plan) would NOT be submitted to HUD for advance approval. Instead, a summary of the plan would be submitted, together with the fair housing actions taken the preceding year and those planned for the forthcoming year.

HUD would raise questions about an applicant's certification only where there was evidence of a problem which the applicant failed to address. We would expect that any differences of opinion about an applicant's identification of impediments or actions to address them could be readily resolved through negotiation. If not, HUD could require special assurances or condition the grant on the community's taking certain actions by a prescribed time. HUD would seek to impose sanctions only as a last resort, recognizing that any interruption of the flow of funds would be harmful to the low- and moderate-income residents whom the programs are designed to benefit. This is precisely the same enforcement mechanism which HUD currently has with respect to CDBG and HOME funds. The proposed fair housing planning regulation does not change enforcement procedures in any way.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BOND FROM HENRY G. CISNEROS

Q.1.A. FHA Single Family Mortgage Insurance. HUD will be proposing a number of new initiatives under the FHA Single Family Insurance program. The proposals include a no-downpayment program for distressed communities and increased FHA mortgage limits. We would like to have a copy of the Price Waterhouse Actuarial Review of the Mutual Mortgage Insurance Fund. Could you please provide an evaluation of the actuarial soundness of each of the proposals with regard to the relevant mortgage insurance fund?

A.1.A. The Price Waterhouse Actuarial Review of the Mutual Mortgage Insurance Fund was provided to the Congress in June. The review estimated that the economic value of the MMIF was \$4.554 billion at the end of fiscal year 1993 and that the capital ratio was 1.44 percent. The review estimated that the economic value of the

fund would be \$15.254 billion at the end of fiscal year 2000 and that the capital ratio would be 3.40 percent at that time.

The Department has not performed an actuarial analysis of the single family initiatives.

It is expected that the business which will be generated from the increase in the FHA Single Family Mortgage limits will be sound. This is because larger single family FHA loans tend to be sounder than smaller FHA home loans. The Price Waterhouse Actuarial Review indicated that all else being equal, larger FHA loans historically have tended to perform better than smaller FHA loans (page 43). The attached chart displays how the average cumulative claim rate for owner occupant homes decreases as FHA loan size increases. House appropriators have included the HUD proposal in the fiscal year 1995 Appropriations bill and have indicated in the report (Report 103-555) a negative credit subsidy (savings) attributable to the proposal of \$40,000,000.

As you are aware, the no-downpayment program for revitalization areas does not appear in either the House or Senate reauthorization bill. The Department's risk-sharing proposals do, however, in one form or another. The risk-sharing demonstrations and the risk-sharing program with State and local finance agencies, as originally proposed, would be obligations of the General Insurance fund. This was in recognition of the innovative nature of the proposals. Demonstrations traditionally have been placed in the General Insurance fund, though this does not mean that they would be unsound. Because the proposals were subject to volume caps and/or other program design restrictions, the HUD fiscal year 1995 Budget Request did not request any credit subsidy for the two initiatives. The programs are further limited under the House and Senate bills.

Q.1.B. What is the FHA single family default rate? How does this compare with the default rate for private mortgage insurance programs? How will the new FHA proposals affect the FHA mortgage insurance default rate?

A.1.B. The average delinquency rate of the three FHA one-to-four family series reporting payments of 90 or more days past due for all FHA loans in the first quarter of 1994 was 2.54 percent. Comparable data on VA 90 day delinquencies indicated a delinquency rate of 2.43 percent in March of 1994. For conventional loans, the rate of loans with two or more missed monthly payments was 1.17 percent in March of 1994.

HUD does not have comparable data on private mortgage insurers.

Credit subsidies were not requested for initiatives other than the new FHA insurance program for lower-income families in revitalization areas in the fiscal year 1995 HUD Budget Request. That proposal is not in either reauthorization bill.

Q.1.C. What is the Federal Government's contingent liability exposure under the FHA Single Family Mortgage Insurance program? What would the projected contingent liability exposure be in 2 years if HUD's proposals are adopted by the reauthorization bill?

A.1.C. The proposals have been modified by the House and Senate reauthorization bills, and it is unclear at this point what ultimately

will be authorized. Accordingly, HUD has not performed sensitivity analyses on the actuarial model to assess exposure attributable to the various proposed modifications.

As indicated previously, the FHA insurance program for revitalization areas will not be included in authorizing action. The fiscal year 1995 HUD Budget Request did not request credit subsidy for risk-sharing initiatives. The House Appropriations bill and report attribute a savings of \$40,000,000 to the loan limit increases.

Q.1.D. HUD is proposing to increase mortgage limits for a number of areas, including a high-cost mortgage limit increase from \$152,000 to \$172,000. Please provide an analysis of how these increases will affect the sale of private mortgage insurance. Also, what will HUD do to ensure that realtors and mortgage bankers will not cater to only the high end of the market and ignore low-income homebuyers?

A.1.D. The Department does not expect that there will be significant impact upon the sale of private mortgage insurance. The HUD proposal for mortgage limit increases is not designed to be competitive. The FHA market share of home mortgage originations was 8.3 percent in 1993 and the share of private mortgage insurers was 13.6 percent. Buyers who can use conventional financing, with or without private mortgage insurance, will continue to do so because the private sector provides good products at favorable prices without the complications of a Government program.

FHA will continue to serve low- and moderate-income buyers. They will certainly not be ignored. Under the current statutory mandate, which authorizes FHA to serve a range of homebuyers and which requires the Mutual Mortgage Insurance Fund to be actuarially sound, FHA has a strong record of serving first-time homebuyers, minority homebuyers, and low- and moderate-income homebuyers. The April 1994 GAO report, which examined FHA business through 1991, indicated that:

- Borrowers under 30 years of age consistently made up a larger proportion of FHA borrowers than of all homebuyers in the United States.
- Minority borrowers made up a greater proportion of FHA buyers than they did all U.S. homebuyers in every year between 1976 and 1991.
- In 1991, more mortgages originated through FHA were for low- and moderate-income families than in any other year examined.

Recently, the median income level of FHA mortgagors has held about steady. The 1993 median annual effective income for mortgagors was \$37,229, a \$120 (.3 percent) decrease from 1992 (the year of the last mortgage limit increase).

The Department believes that the increase in the mortgage limits will actually help low-income buyers. This is because the sound business expected from the change will enhance the fund's capacity to cross subsidize low- and moderate-income borrowers.

Larger FHA loans have historically tended to perform better than smaller FHA loans, according to the Price Waterhouse Actuarial Review of the Mutual Mortgage Insurance Fund for fiscal year 1993. Because this better performing business can offset poorer performing business, there is an opportunity for FHA to take addi-

tional steps to reach out to low- and moderate-income buyers through program initiatives such as developing underwriting standards which can better accommodate non-traditional buyers, expanding housing counseling activity to include outreach efforts, and continuing to make special terms available to nonprofits and Government entities for purchase of HUD-owned properties for low- and moderate-income home ownership.

Q.1.E. What impact will the new initiatives have on GNMA? Does GNMA have the capacity and expertise to handle the additional business likely to be created by these proposals?

A.1.E. The Department does not anticipate problems with securitization.

Q.2. FHA Single Family Mortgage Insurance Program—Mission of Program. I know that Assistant Secretary Retsinas has been interested in reviewing the program mission of the FHA Single Family Mortgage Insurance program. Moreover, the FHA Single Family Mortgage Insurance program has gone through a number of changes in both the 1990 National Affordable Housing Act and the 1992 Housing Act. Wouldn't it be better, before creating a number of significant new mortgage insurance programs and requirements, to appoint a congressionally mandated commission to review FHA programs, both in terms of actuarial soundness, market needs, and the current availability of sophisticated new financial credit instruments?

A.2. No. The Department disagrees. The formation of a commission will be costly and time-consuming, and would delay, unnecessarily, consideration of this Administration's proposals to: (1) address FHA's management deficiencies; (2) develop the flexibility necessary to respond to today's rapidly changing finance markets; and (3) improve FHA's ability to work with public and private sector partners to serve unmet housing needs.

FHA is required to perform annual actuarial studies of its basic Single Family Insurance fund, and the most recent MMI fund study for fiscal year 1993 showed that the fund exceeds congressionally mandated capital ratios. HUD believes that now is the time to adopt the initiatives proposed in the Administration's "Housing Choice and Community Investment Act of 1994" in order to increase home ownership opportunities in America and to revitalize the FHA so it can provide those opportunities.

In addition, at the request of Secretary Cisneros, FHA is undertaking its own study to identify improvements in FHA's structure and program delivery process to permit it to use its resources more efficiently and better serve America's housing needs not served by the private sector. Eight forums will be held around the country beginning in late July. Participants in these forums will include residents, homebuyers, low-income housing advocates, nonprofit and for-profit housing providers, State and local governments, builders, mortgage bankers, realtors, and the capital market experts—the same interests that a Commission would consult. The record of these forums will be available to the Congress. FHA will report the results of this study to the Secretary at the end of this year. GAO also is studying similar questions. It plans to attend each of the forums and will draw its own conclusions. To convene a Commission

would only delay serious consideration of the results of these ongoing assessments.

Q.3.A. Homeless Block Grant. Mr. Secretary, I support the underlying concept of HUD's proposed homeless block grant program. What is the risk of this new block grant program in institutionalizing homelessness as a program or do you see a transition away from this program in several years to more permanent affordable housing programs?

A.3.A. The McKinney reorganization proposal is different from a block grant proposal because it will involve more than transferring funds by a formula to communities. States and localities will have to carefully assess the existing relationships between emergency, transitional, and permanent housing and the unique needs of the local homeless populations. This comprehensive assessment of resources and needs will involve a community planning board representing the interests of the homeless, service providers, and Government. HUD Field Offices will help States and localities in their implementation of "continuum of care" systems.

The focus of the continuum of care approach is to ensure a balanced development and utilization of resources for emergency, transitional, and permanent housing for homeless persons and families. The reorganization proposal does not institutionalize homelessness as a program, rather it permits communities to focus their intellect, energies, and resources on effective intervention facilities and services. These facilities and services, together with prevention strategies and better linkage with mainstream programs, will ensure that communities can address incidences of homelessness.

The Federal Plan, *Priority: Home! The Federal Plan to Break the Cycle of Homelessness*, establishes a two-prong strategy. Government must implement and expand emergency measures to bring those who often suffer from chronic disabling conditions back into our communities, workforce, and families. Government also must systematically address the structural problems causing poverty through comprehensive community development and making mainstream programs more effective so that in the long-term we will depend on mainstream programs not emergency responses to needs.

Q.3.B. Grantee Accountability. Under the block grant, how will recipients be held accountable for carrying out assistance efforts for the homeless?

A.3.B. The legislation requires jurisdictions to assess their homeless needs and provide a plan of action to address gaps in the local continuum of care to address those needs. In addition, the jurisdiction will have to submit a performance report each year on its progress in carrying out its continuum of care strategy and action plans. The legislation provides sanctions for nonperformance. In the Department's comments to the Senate and the House, it also requested that the Secretary have authority to ensure grantee accountability through taking previous recipient performance into account in reviewing grant applications.

Q.4. Definition of Homelessness. I understand that HUD may have redefined the definition of homelessness to include, for example, families who are at risk of becoming homeless. What is HUD's current definition of homelessness and how does this definition dif-

fer from the old definition? Assuming HUD has redefined homelessness, how does this new definition impact the funding of homeless programs and how does HUD expect jurisdictions to address the added needs of these families?

A.4. The HUD McKinney reorganization proposal utilizes the following definition of homelessness contained in section 103 of the McKinney Act since it was enacted in 1987:

(a) IN GENERAL.—For purposes of this Act, the term “homeless” or “homeless individual or homeless person” includes—

(1) an individual who lacks a fixed, regular, and adequate nighttime residence; and

(2) an individual who has a primary nighttime residence that is—

(A) a supervised publicly or privately operated shelter designed to provide temporary living accommodations (including welfare hotels, congregate shelters, and transitional housing for the mentally ill);

(B) an institution that provides a temporary residence for individuals intended to be institutionalized; or

(C) a public or private place not designed for, or ordinarily used as, a regular sleeping accommodation for human beings.

In administering its competitive grant programs, HUD targeted its funding primarily to proposals which served persons who were residing on the street or in shelters. HUD also treated as homeless persons who were at imminent risk of residing in shelters in order to prevent the situation of persons having to live on the street before they were eligible to be assisted. Under the reorganization proposal, jurisdictions will have the flexibility to determine the extent of targeting within the McKinney Act definition.

Q.5.A. Public Housing Modernization Backlog. Mr. Secretary, I understand that there may be as much as \$7 billion in the public housing modernization backlog. Please provide me with data on which PHA's have a modernization backlog and the amount of the backlog.

A.5.A. I believe that it would be useful to distinguish between “pipeline” and “backlog.” The Department defines “pipeline” to be all modernization previously approved by the Department and unobligated by the housing authorities (HA's). The Department defines “backlog” to be modernization funds approved by the Department over *three* years ago and unobligated by the HA's. In addition, “unobligated” funds mean funds for which the HA's have not awarded contracts or started force account work. Therefore, as of September 30, 1993, of the total pipeline of \$6.3 billion, \$434.5 million is considered backlog.

UNOBLIGATED FUNDS AS OF SEPTEMBER 30, 1993¹

[Dollars in Millions]

Fiscal Year 1990 and Prior Years	\$ 434.5
Fiscal Year 1991	\$ 919.7
Subtotal (Fiscal Year 1991 and Prior Years)	\$1,354.2

UNOBLIGATED FUNDS AS OF SEPTEMBER 30, 1993¹—Continued
(Dollars in Millions)

Fiscal Year 1992 (CIAP)	\$ 297.0
Fiscal Year 1992 (CGP)	\$1,712.2 ²
Subtotal (Fiscal Year 1992 and Prior Years)	\$3,363.4
Fiscal Year 1993 (CIAP)	\$ 329.2 ³
Fiscal Year 1993 (CGP)	\$2,592.9 ³
Grand Total	\$6,285.5

¹From official Departmental automated reports (MQRS), summarizing HA progress reports as of September 30, 1993.

²This reflects the amount of funds not disbursed by the Department and, therefore, not expended by HA's as of October 16, 1993. The real unobligated amount would be lower than the unexpended amount. The Department did not have September 30, 1993, data for fund obligations for fiscal year 1992 CGP funds, but will have data shortly for the period ending December 31, 1993. Therefore, the unobligated amount is overstated at this point.

³These funds were approved in the last quarter of fiscal year 1993 (July 1, 1993–September 30, 1993).

The attachment provides data on HA's that have unobligated funds that were approved in fiscal year 1990 and prior years. (Attachment #1).

It should also be noted that during the 12-month period of October 1, 1992–September 30, 1993, \$2.3 billion was obligated by HA's.

Q.5.B. I also understand that HUD has a task force study on public housing reform recommendations. Could you please provide the Committee with a copy of that study?

A.5.B. Please see Attachment #2.

Q.5.C. Does the HUD bill authorize the use of modernization funding for new construction in public housing where the cost of rehabilitation exceeds the cost of new construction?

A.5.C. The bill would amend section 14 of the Act to allow housing authorities (HA's) to use modernization funds for development or acquisition of additional public housing to provide replacement for demolition and disposition activities. The bill limits the amount of modernization funds that can be used for replacement to 50 percent of an HA's annual modernization assistance.

Q.6. Public Housing One-For-One Replacement Rule. Mr. Secretary, what is HUD proposing to do to address the problem of public housing demolition of uninhabitable housing? Would you agree that the public housing one-for-one replacement rule effectively precludes most PHA's from addressing this problem?

A.6. We recognize that there are uninhabitable units in the public housing inventory. However, the mere fact that a unit is uninhabitable does not mean that it is suitable for demolition or disposition. Units may be uninhabitable for a variety of reasons. In some cases, units may be uninhabitable due to deferred maintenance which needs to be addressed. In other instances, the PHA may need to use modernization funds (either CIAP or CGP funds) to address extensive rehabilitation needs. Finally, some PHA's may qualify for funding under the Vacancy Reduction program, and other PHA's may have severely distressed projects that qualify under the Urban Revitalization Demonstration Grant program.

In order to obtain the Department's permission to demolish or dispose of units, the PHA must meet at least one of the statutory

and regulatory justifications. For example, in the case of demolition, the units proposed for demolition must be obsolete and no reasonable program of modernization can return the units to useful life. For those PHA's that submit an application to demolish or dispose of a project or a portion of the project, the Department has both public development units, as well as 5-year Section 8 certificates (project and tenant-based) available for replacement housing.

The Department does not believe that the one-for-one replacement requirement precludes PHA's from addressing the problem of uninhabitable units. In the last two fiscal years, the Department was able to fund all the replacement housing allowed under the statutory cap for public housing development and still have replacement housing needs that could not be funded until the following fiscal year.

If the applications for public housing demolition or disposition continue to escalate in the coming fiscal year it may be necessary to fund more replacement housing plans in multiple stages. Removal of the congressional cap on funding for replacement housing, under the public housing development program, would make the Department's efforts significantly easier. As PHA's begin to fully utilize the exception for not replacing 1-5 units in a 5 year period established under section 116 of the Housing and Community Development Act of 1992, there should be fewer requests for a small number of replacement units.

Finally, the Department does support some modifications to the requirement for one-for-one replacement. In particular, we would strongly urge that the statute be modified to exclude one-for-one replacement in cases where there is no demonstrated need for the replacement units in the community as confirmed by the PHA's up to date waiting list and community's housing strategy plan.

Q.7.A. Section 8 Contract Renewals. Mr. Secretary, HUD's 1993 Budget Justification estimated that Section 8 contract renewals will grow from \$6.8 billion in fiscal year 1994 to \$15.7 billion in fiscal year 1997. Under existing budget caps, it is becoming increasingly difficult to meet these budget authority needs, especially in conjunction with other programs. What steps has HUD taken to identify the amount of Section 8 contract renewal obligations?

A.7.A. PIH prepared the fiscal year 1995 and fiscal year 1996 renewal estimates using the national Control File Subsystem (CFS) database and per unit cost estimates. Field staff have placed substantial effort into entering all contract data into CFS and verifying the quality and completeness of the data. CFS data is currently being matched against accounting data from the Program Accounting System (PAS) to ensure completeness. The matching process indicates that the CFS data is substantially complete and reliable for the Rental Certificate and Rental Voucher programs. Field offices have reported that data entry and verification is 98 percent for these programs.

Subsequent updates of CFS data from HUD Field Offices have also validated the accuracy of the fiscal year 1995 renewal estimates. Further, slightly different methodologies used by PIH's Rental Assistance Division and the Office of the PIH Comptroller in computing budget projections for fiscal year 1995 and fiscal year

1996 have produced similar results. Fiscal year 1997 Section 8 renewal estimates for PIH will be developed using the same procedures as used for fiscal years 1995 and 1996.

Q.7.B. Is HUD recommending any legislative actions to reduce the amount of Section 8 renewal costs in future years?

A.7.B. At this time, the Department is considering a variety of responses—from legislative remedies to varying the term of renewals. HUD has not yet introduced any proposals to Congress which would directly reduce the amount of Section 8 renewal costs in future years.

Q.8. Condition Federal Assistance on a Housing Discrimination Plan. Mr. Secretary, I understand that HUD is developing a regulation which would provide for the Department to withhold Federal assistance, including public housing, CDBG, and HOME assistance, if a jurisdiction fails to develop a HUD-approved plan to combat housing discrimination. Is this true? We would like to have a copy of the OGC legal opinion on this matter. Wouldn't withholding HUD assistance actually mostly harm the low-income families that HUD needs to assist?

A.8. The 1968 Fair Housing Act requires the Secretary of HUD to administer all of HUD's housing and community development programs so as to affirmatively further fair housing.

Congress amended the CDBG program in 1983 to require that all recipients of CDBG funds certify that they will affirmatively further fair housing. With the passage of the National Affordable Housing Act of 1990 Congress extended a similar requirement to all communities and States filing a CHAS and to the HOME program. The certification is not limited to activities conducted with CDBG or HOME funds, or to publicly-assisted housing.

Then in 1988, HUD issued regulations implementing the 1983 amendments. The regulations established a review requirement for affirmatively furthering fair housing where a grantee would be considered to be in compliance if it (1) conducted an analysis of fair housing impediments, and (2) took action designed to address the conditions identified as limiting fair housing choice.

More than 100 communities have adopted analyses of impediments since 1988. Cities that chose not to conduct an analysis were still required to take actions to affirmatively further fair housing. Some communities have taken actions likely to have a positive impact; other communities have done very little. Under the 1988 regulations, it is extremely difficult to hold communities accountable for achieving fair housing progress.

This Administration believes that it is important to take fair housing seriously. We also believe that the primary focus for fair housing planning should be at the local level, just as the Community Development plan is a local responsibility.

What follows has been reviewed and approved by HUD's Office of General Counsel (OGC). The proposed rule implementing the Fair Housing Plan has been reviewed and approved by the Office of General Counsel. According to the Office of General Counsel, promulgation by the Department of regulations which require formula grantees to establish and carry out Fair Housing Plans, strategies which affirmatively further fair housing, is legally permitted

by and entirely consistent with the provisions of title I of the Housing and Community Development Act of 1974, title I of the National Affordable Housing Act of 1990, and the Fair Housing Act.

All three statutes contain specific references to the Secretary's responsibility to insure that housing and community development activities undertaken and/or funded by the Department affirmatively further fair housing.

The Community Development statute provides that would-be recipients of Community Development Block Grant funds may receive the funds *only* if the grantee certifies to the satisfaction of the Secretary, that it will affirmatively further fair housing. It is entirely consistent with this directive that the Secretary set out in regulations that which constitutes a satisfactory certification in this regard. The Fair Housing Plan is just a "fleshing out" of what this requirement means. Satisfactory certification is a pre-condition of receiving grant funds.

In addition to the CDBG statute, title I of the NAHA (CHAS) legislation also provides that the would-be recipient must submit "in a form the Secretary determines to be appropriate" a certification that it will "affirmatively further fair housing." See section 105(b)(13). Again, it is entirely appropriate for the Secretary to set out through regulation that such certification will only be "satisfactory" if it contains the fair housing-related information and strategies set out in the Fair Housing Plan. There is nothing in the statute that encumbers the Secretary's ability to so provide, and doing so is consistent with the Department's own affirmative duty under title VIII.

Finally, the requirement for a Fair Housing Plan is consistent with the Fair Housing Act itself. Section 808(e)(5) of the Act requires the Secretary to "administer the programs and activities relating to housing and urban development in a manner affirmatively to further the policies of this title." This duty is significantly reinforced by the Executive Order 12892, "Leadership and Coordination of Fair Housing," signed by President Clinton on January 17, 1994 (59 FR 2939; Jan. 20, 1994).

"In carrying out the responsibilities in this order, the head of each executive agency shall take appropriate steps to require that all persons or other entities who are applicants for, or participants in, or who are supervised or regulated under, agency programs and activities relating to housing and urban development shall comply with this order."

To the extent that the formula grant programs which will be covered by the Consolidated Plan are "entitlement programs," that "entitlement" is expressly limited by the program participant's willingness to evidence an enforceable commitment to the Nation's civil rights/fair housing laws, in the form and content which satisfies the Secretary.

HUD has no intention of attempting to withhold funds to communities except in cases of refusal to comply with the fair housing laws.

Q.9. Transfer of FEMA Emergency Food and Shelter Program to HUD. Mr. Secretary, the HUD Budget proposes transferring the FEMA Food and Shelter program from FEMA to HUD. I am opposed to transferring this program, especially since this is a

very effective program at FEMA, with only 3 percent administrative costs. Why move a program that is very successful?

A.9. The Administration's 1995 Budget proposes to transfer the administration of the Emergency Food and Shelter program from FEMA to HUD. This recommendation originated from OMB in an effort to streamline and consolidate programs.

It is imperative that the essential relationships between the Federal Government and the Emergency Food and Shelter National Board and local providers remain strong. HUD is committed to making the transition in administering Federal agencies a smooth and effective one.

The Department shares with nonprofit groups a high regard for the existing operation of the program and the excellent work being done by recipients of FEMA assistance.

If the program were transferred, HUD intends that the essential relationships between the Federal Government and Emergency Food and Shelter National Board will remain strong and the program will operate the same.

Q.10. Housing Assistance for Illegal Aliens. Do you support providing Federal housing assistance to families who would be termed illegal aliens? What steps is HUD taking to ensure that illegal aliens are not receiving Federal housing assistance?

A.10. The Department of Housing and Urban Development has taken the following steps to ensure that illegal aliens are not receiving Federal assistance:

A. *Earthquake Assistance*—In order to ensure compliance with the provisions of the so-called "Reid Amendment" regarding California earthquake disaster assistance to persons not lawfully within the U.S., the Department required public housing authorities distributing emergency Section 8 housing assistance provided for by the supplemental appropriation to obtain a certification of citizenship or lawful immigrant status from every applicant for such assistance as part of the application process. The applicants also were required to produce an identification document, and were notified of the penalties of perjury and the prospect of an INS audit of persons receiving assistance.

B. *Section 214*—Following the failure of the previous two administrations to promulgate a rule implementing section 214 of the Housing and Community Development Act of 1980, the current administration at HUD has worked diligently over the past 6 months to develop and propose a non-citizen regulation. The purpose of this rule is to implement the 1980 and subsequent 1987 statutory provisions relating to and restricting the access of certain classes of non-citizens to HUD assisted housing. That rule was completed and delivered to OMB on June 28, 1994. The HUD General Counsel and members of his staff met with Budget staff of OMB on July 13, 1994, to review the proposed rule, and HUD is awaiting OMB approval.

The rule must be implemented by over 3,000 public housing authorities and over 10,000 assisted housing providers throughout the country. The implementation of this rule will insure that both mandates of the law are met: (1) That only citizens or persons with a satisfactory immigration status under the statute receive Federal

housing assistance; and (2) there is a uniform, fair, and non-discriminatory application of the statutory provision.

Q.11.A. District of Columbia Public Housing Authority. The District of Columbia (DC) Public Housing Agency has been plagued for many years by extensive fraud and mismanagement. The most recent issue which has come to the attention of the public and the Congress is the selling of vouchers and certificates, instead of providing this housing assistance to needy, very-low-income families on the waiting list.

I understand that HUD has entered into a management agreement with the DC Government to manage the DC public housing program. What form does this agreement take?

A.11.A. HUD has not entered into a management agreement with the District of Columbia Department of Public and Assisted Housing (DPAH). Rather, HUD has joined in a partnership with DC to correct the problems at DPAH. This is part of HUD's ongoing effort to develop a constructive, proactive model for turning around troubled PHA's.

Q.11.B. Could you please provide a copy of the agreement to the Committee?

A.11.B. A copy of Secretary Cisneros' April 14 letter to Mayor Sharon Pratt Kelly, setting out terms of the partnership agreement, is attached (Attachment #3). In brief, it provides for the creation of a DPAH Executive Committee, the co-chair of which is Assistant Secretary Joseph Shuldiner. The letter agreement also provides for an independent management team for operational improvement and performance evaluation, and for technical assistance from HUD. In the last 3 months, HUD has, in fact, placed a number of its staff at DPAH, drawn from Headquarters and field offices around the country, to help identify deficiencies and begin reconstruction of necessary management systems. A private firm has been engaged to act as management consultant to DPAH.

Q.11.C. Does HUD have the staff capacity and expertise to run the DC Public Housing program? Wouldn't it be better for a court to appoint a receiver or special master for this purpose?

A.11.C. The expertise and resources provided by HUD would not be obtainable from any receiver or special master. HUD believes that the appointment of a receiver would be unnecessarily disruptive and not, in fact, provide the management expertise and resources which DPAH requires.

Q.11.D. I am also very concerned that the sale of vouchers and certificates by DC public housing officials has resulted in no housing assistance being provided to families at the top of the waiting list. I find it very hard to believe that HUD, in its annual review of the DC Public Housing Agency, would not have picked up on this problem. It seems that HUD fell asleep at the switch. What steps is HUD taking to ensure that Section 8 waiting lists are being handled in a legal and appropriate way throughout the country?

A.11.D. The Department conducts management reviews of public housing agencies in order to ensure that the Section 8 programs are being administered in accordance with the law and program regulations. However, because of a lack of resources, the Depart-

ment is unable to conduct management reviews of every PHA annually. The Department has instituted a risk management assessment policy for scheduling management reviews in order to target the highest risk PHA's for more frequent and intensive reviews.

The Department is also developing an audit guide for use by independent auditors which conduct annual audits at the PHA's. This guide will provide for the auditor to examine tenant files, as well as the agency's financial records, in an effort that will supplement the HUD management review and risk assessment process.

It is also noted that the fraudulent activity that occurred at DPAH, where bribes were paid in order for families to be selected for assistance, is difficult to detect without someone with knowledge of the fraud initially reporting the activity or their suspicions of the activity. (A report of this nature led to discovery of fraudulent activity at DPAH.) The Department maintains a telephone hotline through which the general public and PHA employees may report suspected cases of fraud for investigation.

Q.12. Choice in Residency Counseling. Mr. Secretary, HUD has requested some \$141 million for fiscal year 1995 for Section 8 housing counseling. You have stated that all experts agree that this program is necessary to make Section 8 work for low-income tenants. Please provide a list of these experts and any supporting documentation. Also, what would the spendout rate be for this program in fiscal year 1995?

A.12. As the Section 8 tenant-based assistance program currently operates, PHA's provide limited assistance to recipients to help them locate housing which meets the eligibility requirements of the program. The Senate Banking Committee, in the report accompanying S.3031, the precursor to the Housing and Community Development Act of 1992, noted, "Housing advocates have long been concerned that recipients of Section 8 assistance are heavily concentrated in distressed, segregated neighborhoods and communities." For this reason, the report explains, the Moving to Opportunity legislation requires HUD to take "additional actions to expand tenant choice and mobility beyond the scope of this limited demonstration." Section 153 of the Act requires HUD to submit to Congress any recommendations for legislative action to further fair housing objectives under the certificate and voucher program.

Literature on the *Gautreaux* program in Chicago, the longest-running mobility program to provide counseling to recipients of Section 8 assistance, indicates that counseling services are essential to moving recipients to low-poverty areas. James Rosenbaum, in "Changing the Geography of Opportunity by Expanding Residential Choice: Lessons from the *Gautreaux* Program," Fannie Mae Annual Housing Conference, 1994, writes, "Like participants in other tenant-based assistance programs, *Gautreaux* participants were reluctant to move to distant suburbs that they had never seen before, and few would have moved without the counselors' encouragement and visits to the suburban apartments. When contrasted with the failures of previous programs, the successes of this program indicate the value of having real estate staff and housing counselors."

In contrast, a 1981 study of the experimental voucher program found that given free choices about where to move, most recipients moved to areas very similar to the areas they left. Cronin, F.J., and D.W. Rasmussen "Mobility" in *Housing Vouchers for the Poor: Lessons from a National Experiment*, ed. R.J. Struyk and M. Bendick, Jr., 107-128. Washington, DC Urban Institute Press.

Other "experts" include Douglas Massey, Alex Polikoff, Florence Roisman, Kale Williams, Paul Fischer, and James Rosenbaum.

This is a new activity for which a spendout pattern has not emerged. HUD plans to devote significant staff resources to start-up and implement the program. Therefore, we are confident that we can obligate all funds made available to us during the first year. Using other HUD counseling programs as a guide, we expect that there will be no outlays or spending the first year, 70 percent expended in the second year, 20 percent and 10 percent spread out over the third and fourth year, respectively.

Q.13. LIFT Program. Some of HUD's new economic development initiatives appear to anticipate cities using these funds to "bid" for new businesses. This means that favored cities will be able to bid with Federal dollars against other areas for businesses. Do you agree with this principle and, if not, what protections do you envision for these initiatives to preclude such bidding?

A.13. No, I do not anticipate that cities will use LIFT funds to 'bid' for new businesses. The LIFT program has several protections that will work to preclude such bidding. First, LIFT has a neighborhood focus that attempts to offset the competitive disadvantage economically distressed areas of communities face in retaining, expanding, or attracting new businesses. The Neighborhood LIFT program is designed to serve as a catalyst for the revitalization of lower-income, inner-city neighborhoods and disadvantaged rural communities. The primary focus of the program is to rebuild the economic base of "neighborhoods of need" that are not participating in the economic recovery.

Second, the selection criteria for LIFT will tend to favor those economic development projects that create, expand, or retain businesses owned by residents of the economically distressed target neighborhoods with high rates of poverty and unemployment. Eligible neighborhoods must be located outside central business districts, unless the Secretary determines a successful revitalization effort is contingent upon the simultaneous revitalization of such a district. The project must also be part of an integrated strategy that helps restore the economy of the targeted investment area.

Next, the selection criteria in the Administration proposal favor projects that provide essential services to residents of distressed neighborhoods, generate jobs for neighborhood residents, build the economic base of neighborhoods, including economically empowering neighborhood residents through equity participation in neighborhood projects, and such other factors the Secretary deems appropriate to carry out neighborhood revitalization. These types of projects are not those that start "bidding wars" between different cities because they are specific to meeting the needs of the individual neighborhoods in which they will be located.

Q.14. Reduction in Public Housing Operating Subsidies. Mr. Secretary, HUD is recommending a reduction in public housing operating subsidies for fiscal year 1995 based on anticipated income from employment incentives and better income mixes. However, won't these savings be realized in future years and not in fiscal year 1995? Please provide a 5 year projection for these savings.

A.14. Savings estimates that HUD has previously provided to Congress were made prior to a more extensive analysis recently done by HUD staff. Based on this recent analysis, it is not expected that any savings will result in fiscal year 1995 from these new initiatives.

Also, while it is safe to say that better income mixes and employment incentives in public housing programs will ultimately lead to increased savings, HUD cannot, at this time, accurately predict how much savings will be realized over a 5 year period. Certain factors, such as the amount of PHA's which choose to utilize ceiling rents and the amount of unemployed residents who obtain employment, are difficult to estimate until these reforms have been implemented and results can be analyzed.

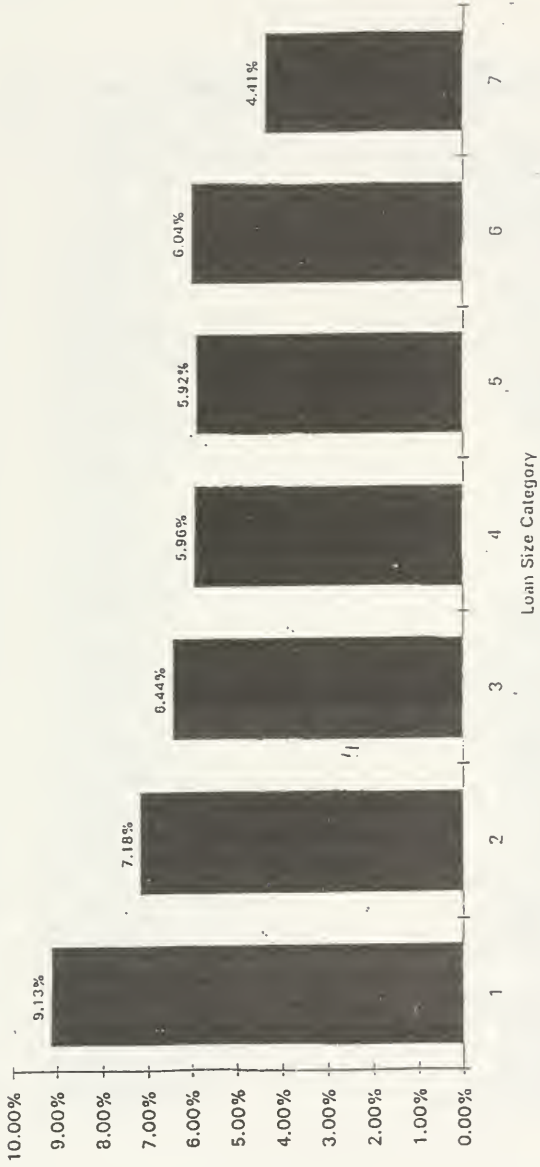
Q.15.A. Public Housing Modernization Borrowing Authority. Mr. Secretary, you have suggested the creation of a section 108 type program for public housing modernization. In other words, PHA's could pledge future modernization funds against current modernization spending, including demolition and new construction. Doesn't this create tremendous risk against the availability of future modernization funding for future needs? Will State and local governments be required to pledge some kind of match or guarantee in this program?

A.15.A. This proposal is still under modification by the Department. The Senator's questions will be addressed after completion of the final version of this proposal.

Q.15.B. Who, in specific, has been consulted on this proposal? I would like a list of anyone who has objected to this program and their objections.

A.15.B. In addition to HUD staff and staff at the Office of Management and Budget, approximately 20 housing authorities have been consulted in the development of this proposal. To date, none of these parties have objected to the overall principles of this proposal—although many have provided recommendations relating to the specifics of the proposal.

Average Cumulative Claim Rate in Policy Year 19 by Loan Size



For 1993, the Loan Size Category Upper Limits were: One - \$46,770, Two - \$56,489, Three - \$65,489, Four - \$74,846, Five - \$84,201 Six - \$102,913, Seven - \$151,725

U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT
 COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM (CIAP)

HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
AK001	ALASKA STATE	437,439
AK006	NORTHWEST INUPIAT	320,683
AK007	INTERIOR REGIONAL	603
AK008	BERING STRAITS REGIONAL	4,274
AK009	AVCP	44,108
AK010	BRISTOL BAY	39,635
AK011	COPPEE RIVER BASIN REG'L	51,271
AK012	COOK INLET	45,710
AK013	KODIAK ISLAND	12,678
AK016	ALEUTIAN	97,108
AL001	BIRMINGHAM	2,349,945
AL006	MONTGOMERY	50,393
AL007	DOTHAN	68,047
AL062	LANETT	11,987
AL079	MONTEVALLO	15,837
AL089	VINCENT	38,110
AL107	ELBA	2,655
AL109	DEMOPOLIS	1,577
AL120	LINDEN	10,040
AL123	HEADLAND	121,782
AL125	BESSEMER	695,451
AL166	CHICKASAW	106,158
AL169	PRICHARD	223
AL189	TOP OF ALABAMA	26,984
AL192	SCARHA	20,000
AL801	RES. COUNCIL OF MOBILE	41,344
AL802	BRANCH HGTS HOMEBUYERS	81,787
AR003	FORT SMITH	86,050
AR004	LITTLE ROCK	1,165,599
AR005	BLYTHEVILLE	283
AZ001	PHOENIX	1,196,395
AZ003	GLENDALE	96,412
AZ004	TUCSON	2,211,126
AZ009	MARICOPA COUNTY	271,376
AZ010	PINAL COUNTY	13
AZ014	SALT RIVER	12,748
AZ016	WHITE MOUNTAIN	3,604
AZ018	COLORADO RIVER	38,092
AZ023	NOGALES	96,327
AZ026	TOHONO O'ODHAM	89,986
AZ027	HOPI TRIBAL HA	359
AZ028	CHANDLER	23,770
AZ038	PEORIA	6,432
CA001	SAN FRANCISCO	1,468,291
CA002	LOS ANGELES COUNTY	624,645

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
CA003	OAKLAND	4,774,928
CA004	LOS ANGELES CITY	1,104,946
CA005	SACRAMENTO CITY	9
CA008	KERN COUNTY	414,932
CA009	UPLAND	299,339
CA011	CONTRA COSTA COUNTY	132,616
CA014	SAN MATEO COUNTY	40,301
CA021	SANTA BARBARA COUNTY	287,408
CA027	RIVERSIDE COUNTY	565,259
CA031	OXNARD	531,557
CA033	MONTEREY COUNTY	20,291
CA036	IMPERIAL CITY	2,132
CA037	WESTMORLAND	9,765
CA039	CALEXICO	895,446
CA045	SAN PABLO	24,908
CA046	WASCO	1,925
CA063	SAN DIEGO HSG COMM	17,322
CA097	ROUND VALLEY	182,745
CA805	MARIN CITY TC	1,368
CO001	DENVER	747,474
CO002	PUEBLO	152,387
CO047	UTE MOUNTAIN UTE	337,230
CT004	NEW HAVEN HA	63,227
CT006	WATERBURY HA	56,971
CT013	EAST HARTFORD HA	3,275
CT015	ANSONIA HA	442,499
CT022	NEW LONDON HA	120,001
CT024	PUTNAM HA	83,518
CT027	STRATFORD HA	2,287,471
CT801	HARTFORD TEN. RGTS. FED.	84,010
CT802	WAVERLY TWNHOUSE RES COUN	52,000
CT803	BRIDGEPORT RES AFFAIRS BO	85,000
DC001	DPAH	46,655,131
DE001	WILMINGTON HSNQ AUTH	964,110
DE072	DOVER HSNQ AUTH	86,360
DE004	DELAWARE STATE HSNQ AUTH	40,938
FL001	JACKSONVILLE	429
FL002	ST. PETERSBURG	67,372
FL008	SARASOTA	107,462
FL009	WEST PALM BEACH	394,542
FL015	NW FLA REGIONAL	29,856
FL022	NEW SMYRNA BEACH	211,261
FL033	SEMINOLE COUNTY	77,611
FL045	STUART	9,557

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
FL047	FT. MYERS	11,590
FL058	TARPON SPRINGS	93,401
FL060	PUNTA GORDA	21,500
FL081	DEERFIELD BEACH	7,350
FL801	JORDAN PARK RA	31,549
FL802	RIVERVIEW TERRACE RC	28,807
FL803	DADE COUNTY OVERALL TAC	58,292
FL804	CENTRAL PARK	45,500
FL805	TENANT ADV. COUNCIL	43,257
GA002	SAVANNAH	50,714
GA004	COLUMBUS	45,142
GA006	ATLANTA	2,134,378
GA007	MACON	49,584
GA009	BRUNSWICK	583,339
GA010	MARIETTA	200,994
GA011	DECATUR	9,186
GA023	ALBANY	26,532
GA024	THOMASVILLE	89,468
GA063	CORDELE	155,811
GA064	BAINBRIDGE	74,211
GA065	WEST POINT	365,419
GA066	JESUP	1,346
GA069	DUBLIN	1,000
GA073	MONROE	58,135
GA084	MCRAE	1,937
GA085	QUITMAN	82,069
GA089	HAWKINSVILLE	12,164
GA093	LAWRENCEVILLE	52,152
GA094	LAVONIA	136,903
GA102	ROCKMART	293,710
GA104	SYLVESTER	17,987
GA106	DOUGLAS COUNTY	58,651
GA114	BLAKELY	18,217
GA116	CARROLLTON	122,995
GA140	ST. MARYS	9,538
GA144	WASHINGTON	99,738
GA145	VIDALIA	22,102
GA156	MONTEZUMA	98,552
GA160	WARNER ROBINS	71,752
GA171	LOGANVILLE	10,049
GA178	ALAMO	489,909

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
GA191	UNION POINT	8,457
GA192	CRAWFORDVILLE	2,838
GA195	TENNILLE	20,111
GA199	SANDERSVILLE	77,304
GA203	MONTICELLO	8,818
GA204	SENOIA	416,394
GA207	BOWDON	231
GA216	RINGGOLD	924
GA221	HINESVILLE	8,635
GA232	COLLEGE PARK	46,984
GA246	FORT OGLETHORPE	12,038
GQ001	GUAM	139,685
ID007	COEUR D'ALENE TRIBAL	13,420
ID008	NEZ PERCE TRIBAL	4,327
IL001	EAST ST LOUIS HSNG AUTH	986,385
IL002	CHICAGO HOUSING AUTHORITY	5,289,843
IL003	PEORIA HOUSING AUTHORITY	738,575
IL004	SPRINGFIELD HOUSING AUTH	189,965
IL005	GRANITE CITY HSNG AUTH	718,956
IL006	CHAMPAIGN COUNTY HA	104,405
IL007	ALEXANDER COUNTY HA	22,434
IL011	DANVILLE HOUSING AUTH	326,549
IL012	DECATUR HOUSING AUTHORITY	171,893
IL014	LASALLE COUNTY HSNG AUTH	108,861
IL015	MADISON COUNTY HSNG AUTH	38,703
IL016	QUINCY HOUSING AUTHORITY	92,365
IL022	ROCKFORD HOUSING AUTH	1,120,924
IL024	JOLIET HOUSING AUTHORITY	262,333
IL025	COOK COUNTY HSNG AUTH	2,933
IL028	MENARD COUNTY HSNG AUTH	107,262
IL030	ST CLAIR COUNTY HSNG AUTH	1,085,748
IL036	VERMILION COUNTY HA	28,893
IL037	MONTGOMERY CO HSNG AUTH	6,811
IL039	KANKAKEE COUNTY HSNG AUTH	348,096
IL040	LOGAN COUNTY HSNG AUTH	2,887
IL044	PEKIN HOUSING AUTHORITY	56,593
IL045	PULASKI COUNTY HSNG AUTH	5,280
IL046	ADAMS COUNTY HSNG AUTH	3,250
IL047	MACOUPIN COUNTY HSNG AUTH	180,430
IL049	CALHOUN COUNTY HSNG AUTH	5,189
IL052	RANDOLPH COUNTY HSNG AUTH	76,508

U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT
 COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM (CIAP)

HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
IL053	JACKSON COUNTY HSNQ AUTH	190,335
IL055	ALTON HOUSING AUTHORITY	30,674
IL057	MARION COUNTY HSNQ AUTH	70,050
IL058	POPE COUNTY HOUSING AUTH	5,009
IL059	JEFFERSON CO HSNQ AUTH	1,012
IL060	GALLATIN COUNTY HSNQ AUTH	55,784
IL061	FRANKLIN COUNTY HSNQ AUTH	57,337
IL063	JOHNSON COUNTY HSNQ AUTH	15,126
IL068	WHITE COUNTY HSNQ AUTH	50,117
IL070	CUMBERLAND COUNTY HA	43,262
IL073	SCOTT COUNTY HOUSING AUTH	4,146
IL076	MCDONOUGH CO HOUSING AUTH	5,390
IL081	CARROLL COUNTY HSNQ AUTH	16,211
IL087	SHELBY COUNTY HSNQ AUTH	11,585
IL089	DEKALB COUNTY HSNQ AUTH	119
IL090	AURORA HOUSING AUTHORITY	64,084
IL091	WARREN COUNTY HSNQ AUTH	8,904
IL092	ELGIN HOUSING AUTHORITY	173,322
IL103	OAK PARK HOUSING AUTH	20,868
IL118	HAMILTON COUNTY HSNQ AUTH	1,242
IL803	JOHN HAYS HOMES RC	52,000
IL804	WENTWORTH GARDENS RMC	74,120
IL805	4414 S COTTAGE GROVE	62,500
IL806	706 EAST 39TH ST RMC	50,708
IL807	LATHROP UNITED	38,920
IL808	SAMUEL GOMPERS HOMES	66,661
IL809	BURCH VILLAGE\DUNBAR CRT	62,500
IN003	FORT WAYNE HA	1,803
IN005	MUNCIE HA	576,895
IN010	HAMMOND HA	495,700
IN011	GARY HA	138,438
IN020	MISHAWAKA HA	65,241
IN023	JEFFERSONVILLE HA	39,800
IN029	EAST CHICAGO HA	131,364
IN039	ANGOLA	73,545
IN091	PERU	7,966
KS001	KANSAS CITY, KS	927,700
KS004	WICHITA	302,840
KS016	SOUTH HUTCHINSON	17,980
KS037	WELLINGTON	55,973
KS048	KICKAPOO TRIBE IHA	71,200
KS068	LEAVENWORTH	427,511
KS072	LIBERAL	620,699
KY001	LOUISVILLE	1,171,146
KY013	PARIS	71,500

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
KY041	MORGANTOWN	50,760
KY049	VERSAILLES	40,391
KY055	BURKESVILLE	42,161
KY060	FLEMINGSBURG	21,445
LA001	NEW ORLEANS	1,921,746
LA002	SHREVEPORT	172,627
LA003	E BATON ROUGE	135,922
LA024	BOGALUSA	1,751,051
LA025	EUNICE	40,167
LA027	NEW IBERIA	42,784
LA028	RAYNE	12,207
LA029	CROWLEY	5,200
LA036	MORGAN CITY	6,040
LA037	MINDEN	686,093
LA040	ST MARTINVILLE	40,364
LA042	BOSSIER CITY	449,756
LA044	THIBODAUX	7,194
LA047	ERATH	33,415
LA067	ST LANDRY PARISH	47,869
LA070	PATTERSON	34,985
LA092	ST JAMES	49,485
LA096	HAYNESVILLE	492,360
LA112	MANSFIELD	20,589
LA115	NATCHITOCHEs CITY	5,918
LA117	COTTON VALLEY	46,064
LA166	NATCHITOCHEs PARISH	25,513
MA002	BOSTON HA	17,332,778
MA003	CAMBRIDGE HA	646,345
MA006	FALL RIVER HA	672,765
MA007	NEW BEDFORD HA	1,787,825
MA010	LAWRENCE HA	296,500
MA012	WORCESTER HA	481,168
MA017	TAUNTON HA	966,053
MA020	QUINCY HA	202,679
MA025	GLOUCESTER HA	100,403
MA026	NORTHAMPTON HA	104,980
MA028	FRAMINGHAM HA	65,437
MA029	PITTSFIELD HA	18,561
MA031	SOMERVILLE HA	1,309,115
MA039	WINCHENDON HA	636
MA040	DEDHAM HA	61,837
MA044	BEVERLY HA	6,358
MA101	WAYLAND HA	44,184
MD004	HOC	14,600

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
MD006	HAGERSTOWN HSNB AUTH	7,278
MD007	ROCKVILLE	107,388
MD008	FROSTBURG HSNB AUTH	70,417
MD011	GLENARDEN	3,192
MD013	ST MICHAELS HSNB AUTH	72,838
MD014	WICOMICO CO HSNB AUTH	6,281
MD015	PRINCE GEORGE'S	1,759,147
MD016	ELKTON HSNB AUTH	2,036
MD018	ANNE ARUNDEL CO HSG AUTH	233,951
MD021	ST MARYS HSNB AUTH	15,610
MI001	DETROIT HD	5,103,346
MI005	PONTIAC HC	1,997,934
MI006	SAGINAW HC	500,737
MI046	SAINT JOSEPH	22,394
MI058	LANSING	95,821
MI064	ANN ARBOR HC	322,929
MI085	LAC VIEUX DESERT	56,711
MI089	TAYLOR HC	582
MI108	L'ANSE	7,699
MI114	ALGONAC HC	4,798
MI124	SARANAC	31,231
MN012	LEECH LAKE IHA	6,128
MN016	RED LAKE IHA	245,480
MN204	MILLE LACS IHA	13,852
MO001	SAINT LOUIS	5,620,401
MO002	KANSAS CITY, MO	5,126,459
MO011	MOBERLY	3,000,000
MO016	MARSHALL	171,418
MO046	MARCELINE	54,108
MO053	EXCELSIOR SPRINGS	259,912
MO069	SLATER	16,339
MO803	PENWAY PLAZA TA	84,739
MO804	WEST BLUFF TA	77,000
MS004	MERIDIAN HA	208,232
MS005	BILOXI	329,711
MS040	MS REG HA VIII	14,065
MS103	JACKSON HA	625,239
MS105	NATCHEZ HA	13,882
MS107	GREENWOOD HA	4,710
MS109	LONG BEACH	3,947
MS801	SDRHA RC	9,510
MT003	BUTTE	132,609

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
MT008	BLACKFEET	120
MT013	SALISH + KOOTENAI	98,971
MT033	MISSOULA	14,938
NC003	CHARLOTTE	59,673
NC006	HIGH POINT	408,658
NC011	GREENSBORO	126,242
NC012	WINSTON-SALEM	20
NC017	TARBORO	140,918
NC018	LAURINBURG	241,467
NC019	ROCKY MOUNT	27,234
NC036	SELMA	64,044
NC050	WADESBORO	11,473
NC053	HAMLET	269,163
NC057	GASTONIA	4,497
NC065	MONROE	241,628
NC072	STATESVILLE	200
NC074	LENOIR	20,183
NC077	WILLIAMSTON	40,217
ND005	FORT BERTHOLD	7,251
ND068	TRENTON	747
NE045	WINNEBAGO	5,256
NE105	SANTEE SIOUX	5,949
NJ002	NEWARK H A	4,875,223
NJ003	ELIZABETH H A	1,547,909
NJ005	TRENTON H A	5,516,859
NJ006	PERTH AMBOY H A	1,055,050
NJ007	ASBURY PARK H A	1,392,549
NJ008	LONG BRANCH H A	1,402,246
NJ009	JERSEY CITY H A	14,455,071
NJ010	CAMDEN H A	20,863,651
NJ012	BAYONNE H A	2,781,460
NJ013	PASSAIC H A	5,060,863
NJ015	HOBOKEN H A	280,895
NJ016	HARRISON H A	81,345
NJ020	BURLINGTON H A	639,801
NJ021	PATERSON H A	2,432,785
NJ022	NEW BRUNSWICK H A	1,715,816
NJ023	MORRISTOWN H A	1,062,500
NJ026	UNION CITY H A	143,635
NJ032	RAHWAY H A	108,189
NJ034	GARFIELD H A	20,721
NJ037	IRVINGTON H A	710,000
NJ042	FRANKLIN H A	170,484

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
NJ043	EDISON H A	22,706
NJ046	RED BANK H A	652,461
NJ047	CARTERET H A	21,443
NJ051	GLASSBORO H A	31
NJ056	BERKELEY H A	676,899
NJ058	SALEM H A	581,702
NJ064	HADDON H A	42,156
NJ074	PENNS GROVE H A	4,501
NJ083	SECAUCUS H A	12,821
NJ801	STELLA WRIGHT TENANT ORG	12,100
NJ804	DONELLY-PAGE & WILSON	84,300
NJ805	STEPHEN CRANE RC	94,000
NJ806	ELM WEST TA	70,000
NM003	LAS CRUCES	58,601
NM012	PUEBLO OF LAGUNA HA	80,542
NM026	MAXWELL	2,659
NM031	ALL INDIAN	13,884
NV001	RENO	1,573
NV002	LAS VEGAS	194,419
NV014	MOAPA	18,065
NY001	SYRACUSE HA	5,184,791
NY002	BUFFALO MUNICIPAL HA	6,481,924
NY005	NEW YORK CITY HA	66,259,367
NY008	TUCKAHOE HA	158,963
NY009	ALBANY HA	1,573,302
NY010	WATERTOWN HA	781,666
NY011	NIAGARA FALLS HA	115,134
NY012	TROY HA	552,578
NY013	TARRYTOWN MUNICIPAL HA	59,738
NY014	PORT CHESTER HA	510,365
NY015	MECHANICVILLE HA	40,557
NY020	SARATOGA SPRINGS HA	119,285
NY022	COHOES HA	270,068
NY023	FREEPORT HA	881,508
NY025	WATERVLIET HA	241,671
NY028	SCHENECTADY HA	1,307,534
NY029	LACKAWANNA HA	418,276
NY032	CATSKILL HA	5,882
NY034	ROME HA	20,546
NY038	MOUNT KISCO HA	155,704
NY039	OGDENSBURG HA	762
NY042	WHITE PLAINS HA	894,843
NY045	KINGSTON HA	48,573

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
NY049	BEACON HA	25,280
NY050	LONG BEACH HA	992,129
NY051	NEWBURGH HA	1,122,338
NY054	ITHACA HA	1,066,478
NY055	TOWN OF OYSTER BAY HA	992,903
NY057	GREENBURGH HA	315,062
NY062	POUGHKEEPSIE HA	402,876
NY067	HORNELL HA	108,871
NY069	GLEN COVE HA	35,121
NY077	TOWN OF ISLIP HA	1,151,613
NY082	PEEKSKILL HA	371,754
NY085	VILLAGE OF HEMPSTEAD HA	542,261
NY086	NORTH HEMPSTEAD HA	218,947
NY088	NEW ROCHELLE HA	214,034
NY097	CANTON HA	57,654
NY099	PORT JERVIS HA	23,197
NY100	ROCKVILLE CENTRE HA	480,918
NY103	VILLAGE OF ELLENVILLE HA	28,239
OH003	CUYAHOGA MHA	1,579,044
OH005	DAYTON METROPOLITAN H. A.	3,445,744
OH006	LUCAS MHA	637,513
OH007	AKRON MHA	240
OH008	TRUMBULL MHA	743,202
OH009	ZANESVILLE HA	318,333
OH015	BUTLER METROPOLITAN H. A.	49,486
OH022	GREENE METROPOLITAN H. A.	1,450
OH029	ASHTABULA MHA	88,215
OH036	WAYNE MHA	4,338
OH038	CLERMONT METROPOLITAN HA	9,683
OH042	GEAUGA MHA	750,000
OH049	WARREN METROPOLITAN H.A.	13,643
OH060	PIKE HA	17,940
OH062	MIAMI METROPOLITAN H. A.	169,680
OK002	OKLAHOMA CITY	823,242
OK031	WETUMKA	3,161
OK051	CREEK NATION IHA	924,692
OK091	ABSENTEE-SHAWNEE IHA	59,842
OK093	SEMINOLE NATION IHA	798,897
OK100	CHEYENNE-ARAPAHO TR IHA	3,993
OK110	COMANCHE TRIBE IHA	11,888
OK114	OTOE-MISSOURIA TRIBE IHA	115,592
OK127	OSAGE TRIBE IHA	80,953
OK143	SENECA-CAYUGA TRIBE IHA	108,190
OK145	KAW TRIBE IHA	4,038

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
PA002	PHILADELPHIA HSNQ AUTH	47,091,488
PA005	MCKEESPORT HSNQ AUTH	3,759,421
PA006	ALLEGHENY CO	329,455
PA007	CHESTER HSNQ AUTH	4,578,390
PA008	HARRISBURG HSNQ AUTH	3,211,613
PA011	BETHLEHEM HSNQ AUTH	287,209
PA012	MONTGOMERY CO HSNQ AUTH	3,284,356
PA017	WASHINGTON CO	74,218
PA018	WESTMORELAND CO	62,430
PA019	JOHNSTOWN HSNQ AUTH	90,037
PA022	YORK HSNQ AUTH	130,741
PA024	EASTON HSNQ AUTH	1,433,575
PA025	CONNELLSVILLE	2,946,220
PA026	LAWRENCE CO	220,829
PA034	FRANKLIN CO HSNQ AUTH	40,398
PA037	POTTSVILLE HSNQ AUTH	103,616
PA041	MIFFLIN CO HSNQ AUTH	488,723
PA044	HAZLETON HSNQ AUTH	68,488
PA046	CHESTER CO HSNQ AUTH	240,428
PA053	SUNBURY HSNQ AUTH	333,417
PA056	FRANKLIN HSNQ AUTH	1,045,840
PA802	RICHARD ALLEN HOMES TC	78,400
PA803	PASSYUNK HOMES TC	79,500
PA804	UNITED MORTON HOMES TC	65,800
RI004	CENTRAL FALLS HA	215,717
RI014	BURRILLVILLE HA	1,400
RQ005	PRPHA	2,156,674
SC001	CHARLESTON	2,729,502
SC004	GREENVILLE	232,414
SC023	SUMTER	20,314
SC024	SC REGIONAL NO 3	9,060
SC032	LANCASTER	11,308
SC056	CHARLESTON COUNTY	1,560
SC802	TENANTS ON THE MOVE	14,051
SC803	JESSE JACKSON TWNHOUSE TA	62,097
SD001	OGLALA SIOUX	2,107
SD005	CHEYENNE RIVER	515,370
SD009	DE SMET	5,419
TN001	MEMPHIS	1,143,494
TN004	CHATTANOOGA	36,258
TN016	SWEETWATER	34,107
TN021	DYERSBURG	27,363
TN022	CLINTON	15,701

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
TN025	TRENTON	295,791
TN026	ETOWAH	3,035
TN027	HUMBOLDT	4,357
TN035	FRANKLIN	4,864
TN039	SHELBYVILLE	17,703
TN042	CROSSVILLE	11
TN047	MT. PLEASANT	8,965
TN057	RIPLEY	1,099
TN058	GREENEVILLE	859
TN065	MARYVILLE	2,481
TN072	SOUTH CARTHAGE	100,000
TN073	PORTLAND	41,697
TN074	ERIN	306,987
TN078	OLIVER SPRINGS	243
TN090	LAFAYETTE	2,413
TN092	GRUNDY	9
TX001	AUSTIN	32,731
TX003	EL PASO	828,785
TX004	FORT WORTH	1,481,328
TX007	BROWNSVILLE	232,829
TX008	CORPUS CHRISTI	379,480
TX009	DALLAS	235,977
TX011	LAREDO	240,912
TX027	MCKINNEY	305,301
TX029	MERCEDES	233,743
TX041	OLNEY	16,358
TX048	PARIS	103,603
TX049	PITTSBURG	61,309
TX052	SEYMOUR	438,394
TX058	GLADEWATER	908,351
TX051	SWEETWATER	58,890
TX062	EDINBURG	71,314
TX064	ALAMO	146,150
TX065	HARLINGEN	171,716
TX069	DELEON	8,245
TX070	ENNIS	76,406
TX071	GILMER	37,581
TX074	LULING	85
TX076	COOPER	96,905
TX078	SHERMAN	114,044
TX079	KILLEEN	267,075
TX080	ANSON	202,283
TX082	HENRIETTA	11,943

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HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
TX092	LADONIA	6,646
TX094	ARCHER CITY	80,412
TX096	EDNA	17,099
TX106	DAINGERFIELD	62,660
TX111	BURKBURNETT	853
TX114	KINGSVILLE	217,079
TX121	NAPLES	7,031
TX122	OMAHA	4,164
TX124	KNOX CITY	3,962
TX126	CELESTE	16,651
TX147	KENEDY	94
TX152	BEEVILLE	23,254
TX167	STAMFORD	22,372
TX190	STANTON	180,693
TX191	TAFT	123,430
TX197	BAIRD	45,317
TX200	ASPERMONT	74,587
TX204	SANTA ANNA	10,770
TX209	MALAKOFF	64,120
TX212	MABANK	10,818
TX218	WHITNEY	10,928
TX224	ELSA	954
TX251	BRADY	105,484
TX267	GRANDFALLS	61
TX269	GOLDTHWAITE	21,213
TX271	OGLESBY	93,505
TX284	ALPINE	105,103
TX288	WINNSBORO	30,615
TX289	CUMBY	3,273
TX306	JUNCTION	20,839
TX308	CROWELL	6,816
TX311	WHITESBORO	10,599
TX318	MARFA	22,697
TX321	COLEMAN	21,191
TX325	THROCKMORTON	20,016
TX327	ABILENE	25,150
TX329	WINTERS	12,765
TX332	PEARSALL	22,300
TX334	SAN SABA	78,647
TX335	COTULLA	3,450
TX336	GRAND SALINE	128,363
TX339	CLIFTON	39,620

U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT
 COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM (CIAP)

HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
TX342	FERRIS	14,851
TX345	LOMETA	78,535
TX347	GRANDVIEW	221,230
TX356	BIG SANDY	1,682
TX381	LA GRANGE	569
UT001	UTE INDIAN	30,674
VA001	PORTSMOUTH	84,824
VA002	BRISTOL RED & HSNB AUTH	1,670,090
VA003	NEWPORT NEWS RED & HSNB	2,717,340
VA004	ALEXANDRIA	69,268
VA005	HOPEWELL RED & HSNB AUTH	51,758
VA006	NORFOLK RED & HSNB AUTH	1,960,963
VA011	ROANOKE RED & HSNB AUTH	71,929
VA012	CHESAPEAKE RED & HSG AUT	161,859
VA019	FAIRFAX	1,083,969
VA021	WYTHEVILLE RED & HSG AUT	53,149
VA025	SUFFOLK RED & HSNB AUTH	684,932
VA029	CUMBERLAND PLATEAU REG H	14,411
VA030	MARION RED & HSNB AUTH	19,538
VA801	PEARL RC	57,295
VA802	NORTH PHOEBUS RESIDENT CO	26,003
VA803	LINCOLN PARK RES COUNCIL	18,880
VA804	PIN OAKS ESTATES RC	5,439
VA805	WESTHAVEN TA	79,700
VA806	PINE CHAPEL RC	55,976
VA007	ALEXANDRIA RC	81,400
VA808	CENTINNIAL HGTS ASSEMBLY	94,000
VQ001	VIHA	3,856,747
WA001	SEATTLE	457,384
WA003	BREMERTON	9,091
WA022	YAKIMA NATION	4,880
WA025	BELLINGHAM	29,687
WA027	QUINAULT	9,248
WA029	MAKAH	66,530
WA037	SPOKANE INDIAN	11,007
WA043	COLVILLE INDIAN	7,700
WA047	QUILEUTE	60,060
WA052	SO PUGET SD INTER-TRIBAL	6,214
WI009	LAC DU FLAMBEAU IHA	112,303
WI010	ONEIDA IHA	306,037
WI012	BAD RIVER IHA	6,918

U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT
 COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM (CIAP)

HA CODE	HA NAMES	1990 & PRIOR UNOBLIGATED FUNDS
WI032	GREENWOOD HA	29,670
WI041	LAKE MILLS HA	12,993
WI044	OCONTO HA	9,614
WI050	RICE LAKE HA	2,780
WI051	CHETEK HA	29,242
WI062	ST CROIX IHA	2,000
WI142	WAUKESHA HA	221,763
WI243	MENOMINEE IHA	417
WV001	CHARLESTON	41,059
WV004	HUNTINGTON	295,963
WV005	PARKERSBURG	4,700
WV009	FAIRMONT	306,244
WV014	BENWOOD	37,565
WV017	POINT PLEASANT	147,285
WV027	CLARKSBURG	3,841
WY002	CHEYENNE	320,406
	TOTAL	434,497,519

Data Source: 9/30/93 MQRS

ATTACHMENT 2

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-5000

JUN 3 1994

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: All Interested Parties

FROM: Joseph Shuldiner, Assistant Secretary for Public
and Indian Housing, P

SUBJECT: Public Housing Statutory and Regulatory Review Program

As part of Secretary Cisneros' efforts to reinvent the Department of Housing and Urban Development (HUD), the Office of Public and Indian Housing (PIH) recently completed a comprehensive review of public housing program statutes, regulations and related issuances. I am pleased to report that as a result of these efforts, we have succeeded in developing the foundation for significantly improving operations and service delivery in public housing programs.

The Statutory and Regulatory Review program began in earnest at the beginning of Fiscal Year 1994. At that time, all public housing programs (Section 8 and Native American housing programs were reviewed separately) were divided into the following five functional areas: 1) Community Relations and Involvement; 2) Facilities Management; 3) Financial Management; 4) Marketing and Lease Management; and 5) Organization, Management and Personnel. Five corresponding working groups were then formed to review all statutes, regulations and PIH issuances relating to their functional area. Each working group was chaired by a PIH Office Director from HUD Headquarters, with the day to day operations being overseen by "group leaders" selected from the housing industry. The functional group membership consisted primarily of housing authority staff -- although residents, legal service representatives and at least one HUD field office employee were invited to serve on each functional group.

By April 1994, each of the five functional groups submitted a final report consisting of detailed recommendations for reducing the number and complexity of regulations, providing greater flexibility in public housing programs, and making public housing programs more effective. These final reports reflect highly on the commitment and tireless efforts of the functional group representatives, many of whom were volunteering their time and other resources to this very important task. In recognition of these efforts, HUD will make every attempt to expedite implementation of as many of these recommendations as possible.

I have attached an "action plan" for each of the five functional group reports. These plans identify all functional group recommendations, as well as PIH's schedule for implementing them. Complete copies of the functional group reports can be obtained by contacting the appropriate group chairpersons or group leaders, each of whom are identified on the cover page of the action plans.

Attachments

PUBLIC HOUSING STATUTORY AND REGULATORY REVIEW PROGRAM

ACTION PLAN FOR ADDRESSING RECOMMENDATIONS OF THE
COMMUNITY RELATIONS AND INVOLVEMENT FUNCTIONAL GROUP

Group Chairperson

Ed Moses, HUD Headquarters
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Group Leader

Roland Turpin, Dayton Metropolitan Housing Authority
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STATUTORY AND REGULATORY REVIEW FUNCTIONAL GROUP RECOMMENDATIONS:
 COMMUNITY RELATIONS AND INVOLVEMENT

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
1. Definition of income	<p>1. Flat income disregard of the first \$3,000.00 of earned income and then 25% of income in excess of \$3,000.00 for working families. Child support and foster care payments treated as earned income. No deductions.</p> <p>2. 20% deduction from unearned income for non-working families, allowing no additional deductions.</p> <p>3. All current exclusions remain in effect.</p>	24 CFR 913.	Policies would apply for a five year period to conventional low-rent housing only. This statutory change should serve to encourage employment and to simplify rent calculations while not being punitive to non-working families. The Committee specifically chose to reject punitive measures on non-working families and families that fail to complete training programs.	PIH's Policy and Evaluation Division is reviewing this, along with various rent reform proposals in HUD and in Congress, to help define a single HUD rent reform policy. Other offices in PIH and HUD have been involved.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
2. Ceiling rent	Set ceiling rents at a level equal to 150% of the Allowable Expense Level (AEL).	24 CFR 913.107	Should be in effect for five years. The PHA can determine whether to extend the benefit period based upon family situation, market, etc. Statutory change to reflect this formula is required. Implementation of this proposed provision would serve to encourage employment and to encourage mixed income developments and social stability.	HUD recently developed a legislative proposal on ceiling rents which addresses these issues. The legislative proposal was submitted to Congress in 4/94.
3. Grant Program Budget Revision	Grant budget regulations for high performing PHAs should be changed to allow the same flexibility as provided for in the operating budget regulations.	Grants Management Handbook NOFAs and other related instructions	The operating budget regulations provide more line item flexibility for high performing PHAs than many HUD grant budgets. The grant budgets require HUD approval of line item changes in excess of 10%.	HUD will issue an amendment to the Grants Management Handbook and other ORI program instructions to permit line item flexibility in excess of 10% as long as the basic mission and program objective is the same under the proposed change.
4. Resident management	Among other things, the Resident Management program should be revised to: 1) eliminate ambiguity in resident participation requirements; 2) encourage PHAs to facilitate resident management opportunities; and 3) clarify the definitions of RMCs and RCs.	24 CFR Part 964	In a review of the policy framework on resident involvement in public housing, the Committee basically agreed with Tenant Opportunity Program (TOP) revisions of November 30, 1993, but minor changes and additions were recommended.	HUD has implemented the recommendations into the TOP regulations. The proposed rule for TOP was published on 4/19/94.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
5. Drug elimination activities	Expand and enhance the Federal government's commitment to eliminating crime in public housing.	24 CFR Part 961	The Committee recommended changes to be incorporated into the Community Partnerships Against Crime (COMPAC) legislative proposal.	The COMPAC legislative proposal was submitted to Congress in 4/94.
6. Consolidate resident initiatives programs	HUD should develop a single "Super-NOFA" announcing the requirements for all public housing resident initiative programs.	ORI NOFAs ORI Grant Handbook	This single NOFA would contain staggered due dates for each grant program, but would allow for one-time only submission of requirements which are common to more than one program. At a minimum, the Super NOFA would include the resident management program, the Family Investment Center program, the drug elimination program, and the youth sports program.	PIH will implement a Super NOFA for ORI programs and make as many program requirements the same as feasible under the various statutes. Effective Date: FY 1995
7. Family Investment Centers	That up to 30% of the funds received under a FIC grant may be used towards the provision of supportive services.	Sec 515 of the National Affordable Housing Act of 1990	Presently, the FIC program statute stipulates that no more than 10% of funds may be used for this purpose.	HUD has prepared a legislative proposal which requests this revision. This legislative proposal was submitted to Congress in 4/94.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
8. Supplemental assistance for facilities to assist the homeless	No funds from the Early Childhood Development Program should be earmarked for programs funded under the McKinney Homeless Assistance Act.	Section 117 of the Housing and Community Development Act of 1987	The Committee feels that since homeless families receive assistance under the McKinney act, there is no need to earmark additional money for them at the expense of public housing residents.	HUD determined that homeless families with children should be permitted to use early childhood development services. A legislative proposal requesting this change was submitted to Congress in 4/94.
9. 5(h) homeownership program	The Committee recommended a major change in the replacement housing provisions of 5(h) which would help speed up production and create cost savings. They also recommended numerous minor changes to other sections of 5(h), mainly for clarification purposes.	CFR 24 Part 906	This proposal would allow authorities to use proceeds from 5(h) sales to purchase or construct new housing units. Further, this could be done under local and state code requirements rather than HUD development requirements.	Included in revised 5(h) rule. Final rule will be published in 7/94.
10. Low rent housing homeownership opportunities (Turnkey III)	Minor changes were recommended to each Section. The title of the regulations would be changed to "Turnkey III Homeownership Opportunities Program", from the present title, "Low Rent Housing Homeownership Opportunities".	24 CFR Part 904		Included in the revised Part 904 Regulations. Final rule will be published in 10/94.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
11. Section 3 Covered Contracts	Regulations need to be strengthened to make the program more effective.	24 CFR Part 135	"Purchasing of contract supplies and materials" should not be excluded from the definition of Section 3 Covered Contracts. Also, words such as "best efforts" and "encourage" should be replaced by words such as "shall", "will" or "must".	Section 3 final regulations will implement this. Final rule will be published in 5/94.
12. Small PHAs	Small PHAs lack staff to complete all HUD regulations. The Committee recommends that the PHMAP indicator for Resident Initiatives be revised for smaller housing authorities.	24 CFR Part 901.10 ORI NOFAs	Committee has proposed a new PHMAP Resident Initiatives factor which will exclude small PHAs. Committee also believes that the revised NOFA requirements (see recommendation #6) will help ease PHA workload.	These recommendations will be taken up by a separate task force which will be formed to analyze programmatic issues affecting small PHAs.
13. HOPE VI: Urban Revitalization	HUD should make changes to improve and expand the HOPE VI program.	NOFA for the Urban Revitalization Demonstration program	The Committee recommends that HUD designate in this year's NOFA a specific amount for planning grants and a specific amount for implementation grants. Restricting the grant size will allow more cities to participate in this program. Consideration should be given to cities that are not on the top 40 list, since these have problems also.	PIH will reassess this recommendation to provide opportunity for more cities to participate in HOPE VI.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
14. NIMBY (Not In My Back Yard) syndrome	Numerous changes in both attitude and policy need to be fostered by HUD in order to assure community acceptance of public housing.	HUD Handbook 7417.1	<p>Public housing authorities must embark on an aggressive public relations campaign.</p> <p>Public relations and community relations should become an allowable expense in the development of scattered-site, low-rent public housing.</p> <p>Public housing image around this country needs to be enhanced so that single-dwelling neighborhoods do not assume that public housing will be a detriment to their community.</p>	A PIH task force will be convened to develop strategies related to NIMBY
15. Inter-governmental cooperation agreements	HUD should take the leadership to either ensure adequate operating subsidies or to demonstrate that an increase in PILOT would be a financial burden on public housing authorities.	Annual Contribution Contract		These recommendations will be taken up by a separate task force which will be formed to analyze and revise the ACC. The group will convene in 5/94.
16. Home investment partnership program	Allow PHAs to participate in the set-aside for Community Housing development organizations.	24 CFR 92.300	No less than fifteen percent of HOME funds must be reserved by the jurisdiction for investment in housing to be developed, sponsored or owned by community housing development organizations.	Under discussion with the Consolidated Plan Task Force.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
17. Demolition of public housing	The committee recommends changes in the lengthy processing period by HUD, the lack of local decision making discretion, participation requirements, lack of funding to meet the regulatory requirements, and the required approval of the unit of local government.	24 CFR Part 970	The Facilities Management functional group made similar recommendations.	New demolition procedures will address this. A final rule will be published in 6/94.
18. Rent recertification	The rent recertification process should only be utilized on an annual basis.	24 CFR Part 966.4(c)	HUD does not require PHAs to do interim recertifications. The frequency of certifications is left to the discretion of the PHA, provided they perform at least one certification per year.	No further action necessary.

PUBLIC HOUSING STATUTORY AND REGULATORY REVIEW PROGRAM

ACTION PLAN FOR ADDRESSING RECOMMENDATIONS OF THE FACILITIES MANAGEMENT FUNCTIONAL GROUP

Group Chairperson

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STATUTORY AND REGULATORY REVIEW FUNCTIONAL GROUP RECOMMENDATIONS:

FACILITIES MANAGEMENT

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT STEPS
1. Modernization/ Development Contract Administration	Give housing authorities the discretion to award a single contract for construction where current State law mandates award by trade.	Sec. 107(B) of the ACC	HUD believes a statutory change may not be required, since HUD preempted State mini-Davis-Bacon wage rates through rule-making.	<p>HUD will solicit a determination from OGC.</p> <p>If legislation is not required, the proposal will be implemented through the Development and Modernization Regulations. Effective Date: FY 1995</p> <p>If legislation is required, then a proposal will be submitted to Congress. Effective Date: FY 1996</p>
2. Board Resolutions- Modernization Budget Revisions	Eliminate the necessity for a PHA to adopt a Board resolution for each proposed Comprehensive Grant Budget revision where there is no proposed change in the budget amount.	24 CFR 968.330(h)	The Committee feels that existing requirements place additional administrative tasks on PHAs and can delay the efficient prosecution of modernization work.	<p>This is being addressed in the Modernization regulation presently under development. The new rule will mandate Board resolutions in only three circumstances: 1) for the Annual submission; 2) for the Performance and Evaluation Statement; and 3) where Statutory requirements are affected. Effective Date: FY 1995</p>

<p>3. Inspections by HUD of Modernization and Development Work</p>	<p>Eliminate required inspections and provide for spot checks at the discretion of HUD Field Offices.</p>	<p>24 CFR 968.255 and 968.345(a) 7417.1 Rev.1 24 CFR 941.503(c)</p>	<p>The Committee feels that the present requirements create an unnecessary administrative burden to both HUD and the PHAs.</p>	<p>The frequency of inspections is currently being revised in accordance with Risk management model. However, HUD is considering imposing a minimum frequency-1 schedule for Mod-Troubled and another schedule for others - for HUD conduct of on-site reviews. On-site reviews are essential to scoring component 3 & 4 of Mod-Indicator under PHMAP. This will be addressed in the Development and Modernization regulations currently under development. Effective Date: FY 1995</p>
<p>4. Staffing Ratios</p>	<p>Eliminate requirement that HUD Field Offices establish staffing ratios for their housing authorities.</p>	<p>Handbook 7460.7 Rev.1</p>	<p>The Committee argues that, contrary to the intent of HUD, staffing ratios are sometimes used by the Field Offices as standards instead of guides.</p>	<p>HUD will not be pursuing this proposal. HB 7460.7 clearly indicates that the ratios "are intended as guidance" and are to be "used as indicators rather than standards." HUD does not advocate removing otherwise useful guidelines because they are being misinterpreted by a certain few Field Offices.</p>
<p>5. Previous Participation</p>	<p>Eliminate HUD's clearance of proposed contractors. Put burden on HA to determine debarment and suspension status.</p>	<p>24 CFR 968.335(c)(2)</p>	<p>The Committee feels that HUD clearance procedures create considerable delays in contracting and subcontracting projects.</p>	<p>PIH has already drafted a rule to eliminate HUD's role in this process. Effective Date: FY 1994</p>

6. Turnkey Development Selection	Eliminate criteria outlined in Baugh Memo (June, 1986) -- turnkey selections should be made under the competitive proposal techniques stipulated in Part 85.	Baugh Memo (6,86) 24 CFR 941.501(c)	In actuality, the Baugh memo does not create criteria not established in the regulations; it merely changed the Ranking Points for the four factors.	HUD will provide more flexibility with respect to this program in the revised Development Handbook. Effective Date: FY 1995
7. PH Development/ HUD Approval of Documents	Eliminate HUD approval of plans, specification, and requests for proposals.	7417.1, REV.-1 24 CFR Sec. 941 502	The Committee feels this would accelerate the construction process and eliminate micro management by HUD. The Committee argues that post-monitoring could still be conducted by HUD Field Offices.	This is being implemented in the revised Development Regulation. Effective Date: FY 1995
8. Change Orders/PH Development	Eliminate HUD approval of change orders on development contracts as long as units are within TDC.	24 CFR 941-503(b)	The Committee believes that getting HUD approval for each change is cumbersome for PHAs and HUD staff.	For High Performing agencies, this will be implemented in the proposed Development regulation. Effective Date: FY 1995

9. Energy Audits	Eliminate applicability of Subparts C & D to High Performing housing authorities. Eliminate Subpart F for all housing authorities. Allow housing authorities to retain a larger part of the savings for a longer period of time when engaging in performance contracting.	24 CFR 965	Subparts C & D spell out specific measures regarding energy audits and energy conservation. Subpart F relates to Fire Safety.	<p>HUD intends to eliminate the applicability of Subparts C and D to High Performing housing authorities.</p> <p>HUD will not remove requirements under Subpart F due to issues of public safety.</p> <p>HUD will not be pursuing the recommendation regarding retention of savings. Housing authorities can currently keep 50% of savings accrued from Performance contracting. Additional savings in the current climate of restricted subsidy would be difficult if not impossible to achieve.</p>
10. Board Resolutions - Performance and Evaluation Report	Eliminate the present requirement of a separate Board Resolution approving the performance and evaluation report.	24 CFR 968.340(b)(7)	The Committee recommends including this in the annual submission, along with a certification of approval from the PHA.	HUD will not be pursuing this proposal. Refer to recommendation #2.

<p>11. NOFA submissions</p>	<p>In view of the number of NOFAs, allow a single annual submission for all resolutions, certifications that are common to all applications (i.e. Drug Free workplace certification).</p>	<p>Individual Program NOFAs</p>	<p>Other Statutory and Regulatory Review functional groups have made this recommendation as well.</p>	<p>The Financial Management Division of PIH will work in conjunction with program attorneys to devise a one-time certification process for NOFAs.</p> <p>HUD will not be pursuing this recommendation with respect to Board Resolutions. Board Resolutions accompanying specific applications usually are tailored to a specific program. It would be extremely difficult to develop a generic Board Resolution. Also, we want the Board to formally approve each application.</p>
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<p>12. 5% of Units on a Project Basis</p>	<p>Revise the requirement that at least 5% of the units "in a project" be made accessible. This tends to concentrate the disabled in one or more buildings within that project</p>	<p>24 CFR Sec. 8.22(b) and Sec. 8.23(b)</p>	<p>The Committee feels that the 5% should be calculated on an Authority-wide basis, as opposed to a project-by-project basis.</p>	<p>HUD will not be pursuing this proposal.</p> <p>The Regulation currently requires, to the maximum extent feasible, that units "Be Distributed throughout projects and site..." (Sec. 8.26). The requirement to make 5% of the units in a project accessible comes when doing new construction, substantial alterations or other alterations. At one point or another, each project in the PHA's inventory will be modernized and will be subject to the regulatory requirements. Therefore, when viewed in their entirety, the regulatory requirements already promote distribution of units throughout the inventory.</p>
<p>13. Bonding Levels</p>	<p>Increase the bonding level to \$100,000 in order to attract more minorities and women.</p>	<p>24 CFR 968.235(c) and (d)</p>	<p>Modernization regulations currently require bonds for work in excess of \$25,000, while development regulations set the level at \$100,000.</p>	<p>The new modernization regulations will set the level at \$100,000, and the new development regulations will clarify that the level is \$100,000.</p> <p>Effective Date: FY 1995</p>
<p>14. Modernization and Development Guidance</p>	<p>Develop techniques to assist housing authorities in carrying out both Modernization and Development activities.</p>	<p>N/A.</p>	<p>The Committee recommends that HUD develop guidance both in the video and the written form.</p>	<p>An RFP has been developed and this project will be contracted out.</p> <p>Date of contract: FY 1994</p>

15. Force Account Labor	Allow use of Force Account labor in modernization projects if a PHA has received a PHMAP score of "B" or better in the modernization indicator.	24 CFR 968.25(a)		<p>This will be addressed in the Proposed Comp Grant Rule and the Development Rule as it applies to acquisition with rehabilitation. Effective Date: FY 1995</p> <p>Timing of Implementation depends upon Final rewrite of PHMAP indicator for Modernization and Development</p>
16. ACC Revisions	Certain parts of the ACC which directly impact facilities management need to be reviewed and modified appropriately.	Annual Contributions Contract	A specific recommendation was made which would provide more flexibility in contract administration.	<p>These recommendations will be taken up by a separate task force which will be formed to analyze and revise the ACC. The group will convene in 5/94.</p>

**PUBLIC HOUSING STATUTORY AND
REGULATORY REVIEW PROGRAM**

**ACTION PLAN FOR ADDRESSING RECOMMENDATIONS OF THE
FINANCIAL MANAGEMENT FUNCTIONAL GROUP**

Group Chairperson

Barbara Burkhalter, HUD Headquarters
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Group Leader

Gregory Byrne, Dade County Department of Housing and Urban Development
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STATUTORY AND REGULATORY REVIEW FUNCTIONAL GROUP RECOMMENDATIONS:
FINANCIAL MANAGEMENT

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
I Annual Contributions Contract	Eliminate all sections of the ACC where the requirements are (a) already included in regulation or statute or (b) obsolete.	ACC	The ACC was developed prior to the establishment of formal regulations, which have rendered the ACC unenforceable.	These recommendations will be taken up by a separate task force which will be formed to analyze and revise the ACC. The group will convene in 5/94.
II Public Housing Management Assessment Program (PHMAP)	Eliminate the four financial management indicators currently utilized in PHMAP-- Tenant Accounts Receivables (TARs), Operating Reserves, Income over Expenses and Utilities--and replace with Cash Reserves, Financial Management and Audit Findings.	PHMAP regulation 24 CFR 901.10	The financial management indicators must be quantifiable and related to financial management. TARs and utility consumption are performance issues and income over expenses can reward PHAs for deferring maintenance.	PHMAP group addressed revamping of PHMAP - as a result TARs indicator will be eliminated. Reserves, Income/Expenses combined. HUD will only look at routine operating expenses if operating reserves below grade "c". As a result of elimination of maximum operating reserves, that indicator will be changed. HAs will have option of using revised energy indicator or consumption checklist. A new indicator on financial reporting and tracking has also been recommended. A revised PHMAP rule will be published in late 1994.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
III Public Housing Management Assessment Program (PHMAP)	Eliminate all separate performance submittal (TARs and utility consumption reports) and consolidate under PHMAP.	Financial Management and Field Office Monitoring Handbooks	Consolidating submissions would ease burden on PHAs and assist HUD in monitoring program performance.	TARs indicator will be eliminated. HA TARS reports will continue to be required. The Adjustment for Utility Consumption and Rates 52722B is used to adjust the PFS operating subsidy eligibility and complete PHMAP Indicator #4. The other consumption reports the Group is referring to are not OMB approved forms. The format is suggested but not required.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
IV Audits	Revise the Single Audit Act to require that (a) all public housing programs be audited once annually and (b) the audits be completed within 90 days after the close of the PHA's fiscal year.	Single Audit Act	Audited financial statements strengthen HUD's ability to monitor PHAs and to perform adequate risk assessment. The Single Audit Act allows for up to one year to complete the audit and exempts PHAs that are part of local government when the PHA is not included in the audit sample for the municipality.	HUD does not intend to fully pursue this proposal. Based on review of the SMIRPH audit tracking module it is apparent that a 90 day requirement would most likely impose additional administrative burden on the majority of HAs. It is also questionable whether a requirement would prove to be effective in getting HAs to submit audits within 90 days of fiscal year end dates. At a meeting held on May 18, with the group an agreement was reached in this regard. We will publish a Notice that would encourage but not require HAs to submit audits within 90 days. The incentive would be waiving the 45 day requirement to submit unaudited financial statements. The audited financial statements, which contain the HAs spending plan (budget) and actuals, would be submitted with the audit report.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
V Audit	Eliminate the requirement that PHAs must receive HUD approval for entering into audit contracts for more than two years. Allow audit contracts to extend for up to five years.	ACC	Multi-year contracts would invite a larger number of bidders and would be more cost effective. It would also ease the administrative burden on smaller PHAs.	This recommendation will be referred to the ACC group for action. A Notice on HA contracting for accounting services has been prepared and completed Departmental clearance. The Notice allows HA to contract for services without prior HUD approval when the contract does not exceed two years and does not address multi-year contracts.
VI Financial Reporting	Eliminate the requirement to submit mid-year financial reports for all but troubled PHAs and others failing the new PHMAP financial indicators.	Accounting and Financial Management Handbooks	With an improved PHMAP program and changes in the audit, year-end reports are sufficient for monitoring purposes.	A Notice has already been published which implemented this recommendation for certain HAs with under 250 units. A Notice which would implement this recommendation for all HAs has been prepared. Handbook/Guidebook changes will follow.
VII Financial Reporting	Consolidate all year-end reports and replace with the following, to be submitted together within 90 days after the end of the PHA's fiscal year. (a) PHMAP certification, (b) audit and (c) year-end subsidy reconciliation form.	Accounting, Financial Management and Performance Funding System Handbooks	Consolidating submissions would ease the burden on PHAs and assist HUD in monitoring performance. Timeliness is needed for risk assessment, and financial statements would be part of the audit.	See IV.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
VIII Operating Reserves	Eliminate all existing restrictions, thresholds, and approvals on the use of operating reserves. Replace with two rules: First, PHAs must maintain cash reserves equal to 90 days routine expenditures (30 days for large PHAs). Second, reserves can only be used for expenditures related to the public housing program.	24 CFR 990.111	The current reserve thresholds and maximums are arbitrary. How a PHA uses its reserves is a matter for the PHA's board, provided the funds are used for public housing related purposes	A Notice has been drafted which would implement this recommendation. Handbook/Guidebook changes will follow. These revisions will be published by 1/95, and will be effective at the beginning of a PHA's fiscal year.
IX Budgeting	Eliminate the requirement to submit operating budgets, and all their supporting schedules, for all but troubled PHAs and PHAs not meeting the financial management PHMAP indicators. Instead, PHAs would request and receive their annual operating subsidies using a modified version of the existing operating subsidy calculation form.	Section 407 of the ACC, 24 CFR 990.112, and the Financial Management Handbook.	Consistent with the department's goals to focus on results and not process, HUD should concentrate its limited resources on the PHA's actual performance. The budget is merely a planning tool.	A Notice has been prepared and is in Departmental clearance. The Notice serves to implement this recommendation. Handbook/Guidebook changes will follow. These revisions will be published by 1/95, and will be effective at the beginning of a PHA's fiscal year.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
X Budgeting	Eliminate the requirement that PHAs submit the six separate program certifications that accompany the existing budget submission package. Replace with a blanket certification form, to be approved each year by the PHA's board and filed at the PHA.	Regulatory and Statutory requirements	Combining the certifications into one document would ease the administrative burden on PHAs.	A Notice and a new form has been prepared which would, in part, implement this recommendation. A form "Board Resolution approving Operating Budget and PFS" includes most of the certifications. However, according to a OGC opinion separate statutory certifications for Drug Free Workplace and Lobbying must continue to be submitted. OMB approval needed on form. The Notice is in clearance and the OMB paperwork for new HUD-Form 52574 is being prepared. Handbook/Guidebook changes will follow.
XI Budgeting	Eliminate the requirement for HUD approval of budget revisions.	Financial Management and Field Office Monitoring Handbooks.	If HUD is not approving budgets, they do not need to approve budget revisions.	A Notice has been prepared, and is in clearance, which would implement this recommendation. Handbook/Guidebook changes will follow. These revisions will be published by 1/95, and will be effective at the beginning of a PHA's fiscal year.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
XII Personnel	Eliminate the requirement that PHAs pay comparable salaries for administrative staff and HUD-determined wage rates for maintenance staff. Allow PHAs to pay according to the needs in their communities, as approved by their boards.	Section 307 of the ACC	The current requirement regarding comparability with local public practice for administrative staff is extremely difficult to define and unenforceable. HUD-determined wage rates for maintenance staff are plagued with similar problems of interpretation and data collection.	HUD intends to pursue these recommendations. They will be discussed further by the ACC working group.
XIII Insurance	Eliminate the existing requirements on property and liability insurance and replace with the following language: "The PHA shall procure and renew adequate insurance coverage to protect it against risk and peril normally associated with the management of real property, and as may be required by federal, state, or local law.	Section 305 of the ACC and the Insurance Handbook	The existing requirements are overly restrictive and do not allow for situations where insurance cannot be obtained or where insurance costs are prohibitively high. The proposed change would allow the PHA more flexibility in such circumstances without being in non-compliance with the contract.	These recommendations will be taken up by a separate task force which will be formed to analyze and revise the ACC. The group will convene in 5/94.
XIV Insurance	Eliminate the prohibition against employing a broker of record for the purpose of procuring insurance. Allow PHAs the option of selecting brokers based on their qualifications just as architects, engineers, and auditors are selected.	Handbook 7401.5, Chapter 12, Paragraph 12-3, Public and Indian Housing Property/Casualty Insurance Requirements	Most PHAs do not have staff who are experts on the wide variety of coverage normally associated with prudent management of a PHA.	This recommendation will be further reviewed by the ACC working group.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
XV Performance Funding System	Eliminate the requirement that PHAs must use a 3 percent inflation factor when calculating dwelling rental income for estimating operating subsidy.	24 CFR 990.109 and the Performance Funding System Handbook	Since incomes in public housing are falling, eliminating this requirement would reduce the need for subsidy adjustments at year-end and would provide more realistic income projections for budget purposes.	PIH will publish a proposed regulation revising the 3% rental income increase in the PFS. OMB approval will be required. The regulation will be published in FY 1995.
XVI Accounting	Modify the HUD accounting system to more closely resemble generally accepted accounting principles (GAAP). Because PHAs do not depreciate assets, a modified version of GAAP which excludes depreciation but includes accrual of liabilities could be viable.	Low Income Public Housing Accounting Handbook, 7510.1	GAAP is the set of conventions, rules and procedures that define accepted accounting procedures. Use of the GAAP will generally result in financial statements that are not misleading. In addition, use of GAAP may result in more competition from auditors who will be willing to conduct PHA audits.	The current HUD Chart of Accounts shall continue to be maintained by HAS. However, there is nothing that precludes HAS from using GAAP. Those HAS wishing to use GAAP may do so. At a meeting held on May 18, with the group, there was no absolute understanding of what was meant by conversion to GAAP, or agreement as to the type of GAAP (corporate or fund) that would be preferable for use by HAS. A further in-depth study of whether or not conversion to an accounting system which complies with GAAP is necessary or desirable is being conducted.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
XVII Davis-Bacon	Eliminate or modify the Davis Bacon Act, which was last amended in 1941, requiring Davis-Bacon wages to be paid for construction contracts of \$2,500 or more. At a minimum, raise the threshold to \$1,000,000.	Revision to the Davis-Bacon Act	HUD should not be in the business of establishing wages for PHAs and contractors. This is an administratively burdensome process. Local prevailing wages should take precedent. This factor creates delays in obligating CIAP and CGP funds.	HUD has decided not to pursue any revisions to the Davis-Bacon Act at this time.

PUBLIC HOUSING STATUTORY AND REGULATORY REVIEW PROGRAM

ACTION PLAN FOR ADDRESSING RECOMMENDATIONS OF THE
MARKETING AND LEASE MANAGEMENT FUNCTIONAL GROUP

Group Chairperson

MaryAnn Russ, HUD Headquarters
(202) 708-1380

Group Leader

Alonzo Watson, Housing Authority of the City of South Bend
(219) 235-9346

STATUTORY AND REGULATORY REVIEW FUNCTIONAL GROUP RECOMMENDATIONS:
MARKETING AND LEASE MANAGEMENT

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
Income and Rent: Income deductions	HUD should consider regulatory changes to base rent on income actually available to family to meet living needs (i.e., net income, not gross).	24 CFR Part 913	The Committee recommends deductions for: - child support, alimony, etc. - FICA, withholding, and mandatory payroll deductions.	HUD will consider these recommendations in connection with other legislative initiatives for FY 1995 (such as the 18 month disregard) which affect working families. If other work-related initiatives fail, HUD may cost these out for inclusion in the FY 1996 budget.
Income and Rent: Income exclusions	HUD should consider regulatory changes to fully or partially exclude other forms of income.	24 CFR Part 913	The Committee believes that other exclusions could include: - all earned income of a full-time student, regardless of student age. - Income of secondary family members, regardless of age. - assets income - armed services pay - lump-sum payments for delayed start of periodic payments. - earned income	The exemption of the earnings of full time students is already covered in HUD's interim Income/rent rule. Anticipated date of publication: 5/94. Decisions on the other exemptions recommended by the Committee will be deferred pending resolution of other initiatives affecting working families.

PUBLIC HOUSING STATUTORY AND REGULATORY REVIEW PROGRAM

ACTION PLAN FOR ADDRESSING RECOMMENDATIONS OF THE
ORGANIZATION, MANAGEMENT AND PERSONNEL FUNCTIONAL GROUP

Group Chairpersons

Casimir Bonkowski and MaryAnn Russ, HUD Headquarters
(202) 708-0440 and (202) 708-1380

Group Leader

Carlos Jackson, Community Development Commission of Los Angeles County
(213) 260-2200

STATUTORY AND REGULATORY REVIEW FUNCTIONAL GROUP RECOMMENDATIONS:
ORGANIZATION, MANAGEMENT AND PERSONNEL

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT STEPS
I. Personnel Policies	Personnel requirements contained in HUD Handbooks and the ACC should be discontinued.	HUD Handbook 7401.7 ACC Part II	Would discontinue and replace by OMB A-87, which contains all HUD personnel policy requirements.	General Management Division to implement these changes in coordination with other Handbook revisions being contemplated by PIH.
II. Monitoring	Numerous revisions to the draft Monitoring handbook have been proposed.	Draft Monitoring Handbook 7460.7 Rev. 2	Would eliminate many requirements and make them into guidance. Would reduce and simplify remaining language.	General Management Division will be making major revisions to the Monitoring Handbook. All comments will be taken into consideration. The final product will be re-cleared through the Department, and the group members will receive an advanced copy.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT STEPS
III. Peer Review	Establish a system of peer assistance as a means of correcting operational deficiencies of Public Housing Agencies.	PHMAP Certification (Form HUD 50072). Letter to all PHAs from A/S Shuldiner.	HUD's technical assistance role could be greatly reduced. Public housing professionals are qualified to evaluate performance problems and assist in recommending/implementing remedial actions	The Department has initiated a formal system of peer assistance, to be directed at troubled PHAs. A/S signed letter to all PHAs on 4/21 initiating effort, and HUD will provide by 7/31 a listing to troubled PHAs of all PHAs with Grade A's in one or more PHMAP indicators for follow-up.
IV. Oversight of Public Housing	Evaluate and compare HUD's oversight of HUD/FHA insured projects and the CDBG versus public housing and make appropriate changes to refocus the process.	Draft Monitoring Handbook 7460.7 Rev. 2	These programs could serve as appropriate models for public housing programs.	The Department does not intend to pursue this proposal because of the problems unique to public housing and because of the reorganization already in progress.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT STEPS
V. One Contract System	Implement a one contract system for all housing authority programs. The annual contract would consist of one budget submission and all certifications needed for current and proposed programs (i.e. drug free workplace, lobbying, salary comparability, wage rates, etc.).	Various financial management and NOFA requirements.	The annual performance report would validate the information contained in the certifications, provide financial statements, and be followed by the annual fiscal audit.	The Financial Management Division will work in conjunction with program attorneys to devise a one-time certification process. Other proposals with respect to budget and finance have been addressed in more detail by the Financial Management functional group.
VI. Technical Assistance	Compile a roster of qualified consultants and auditors with specialty areas who would be used by HUD to analyze problems, enhance technical assistance, and make recommendations for improved operations at troubled PHAs.	N/A.	Such a list would complement a recent PIH legislative proposal advocating use of development and modernization money for technical assistance.	The General Management Division will contract this out through the Indefinite Quantity Contract (IQC) directed at troubled PHAs.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT STEPS
VII. Small vs. Large PHAs	Those PHAs with 250 or fewer units would be consolidated by state or region for administrative purposes.	N/A.	<p>Local PHAs could sign interagency agreements to form a single Regional Agency.</p> <p>On the alternative, a state administered small PHA program (similar to the CDBG program) could be developed.</p>	These recommendations will be taken up by a separate task force which will be formed to analyze programmatic issues affecting small PHAs.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY

WASHINGTON, D.C. 20410-0001

April 14, 1994

The Honorable Sharon Pratt Kelly
Office of the Mayor for the
District of Columbia
Washington, D.C. 20004

Dear Mayor Kelly:

Thank you for your letter dated April 4 and for meeting with me and Joe Shuldiner on April 5, as well as, your telephone conversation last night. We both agree that the long-standing management problems faced by the Department of Public and Assisted Housing (DPAH) cannot continue. As the recent investigation and arrests of DPAH Section 8 personnel attest, our joint involvement is essential.

It is recognized that DPAH's problems have developed over the years and are deeply rooted. The low-rent character of the projects have not been maintained in an efficient and economic manner as required by Section 202 and Section 209 of the ACC.

You asked that HUD participate in a partnership in which an Executive Committee will be created to facilitate progress in the Department. The purpose of this partnership is not only to correct the problems of the DPAH, but to make it a model process for turning around public housing management in a troubled, big city housing agency. I am happy to have HUD participate, and the entire Clinton Administration supports this effort.

We have agreed to the following:

1. There will be an Executive Committee made up of five persons with yourself as Chairperson, Joseph Shuldiner, HUD Assistant Secretary for Public and Indian Housing, as Vice-Chairperson, with Jim Banks, Former D.C. Housing Director, Ms. Anne Clarke, President of the City-wide Residents Association, and Frank Smith, D.C. City Council Housing Committee Chair. All decisions of this Executive Committee will require the mutual consent of both you and the HUD Assistant Secretary.

This Executive Committee will serve a multiplicity of functions from oversight of the DPAH and its daily functions to long term planning. It also can serve as the potential first step towards a more traditional Housing Authority with a Board of Commissioners. During this interim period, this Committee will function as DPAH's consolidated decision making body through your exercise of the Executive Authority vested

in you as Mayor of the District of Columbia, in the areas including, but not limited to, procurement, contracting and personnel. Moreover, DPAH's executive director and the newly created independent management team as described herein will both report directly to the Executive Committee.

2. There will be an independent management team for operational improvement and performance evaluation. This team will be comprised of professional experts in Public Housing and assume specific functions as defined by the Executive Committee. This independent team will report to the Executive Committee.
3. The first task of the Executive Committee shall be to set priorities, both short and long term:
 - a) On or before May 16, the Executive Committee shall receive a six month plan of actions from DPAH, the independent management team and HUD that can realistically be accomplished. This list will include a timetable for production of a detailed three year operational plan. This plan will spell out the process and goals for improving all aspects of DPAH's operations, and, will outline options to prioritize or administer DPAH functions through third parties where it is shown to be cost effective.
 - b) In the long term, the focus of the Executive Committee will broadly embrace what can and must be reasonably accomplished within this three year critical timeframe. These priorities must involve:
 - (i) Compilation of needs assessments, design work, and blueprints, cost-estimating, engineering surveys, and other relevant materials.
 - (ii) Unclogging the modernization pipeline, and expediting the startup of the Urban Revitalization Program for Ellen Wilson Apartments.
 - (iii) Expediting HUD-approved demolition and forwarding City-approved demolition/disposition requests for HUD review.
 - (iv) Concluding the Kenilworth renovation and consummating its conversion and/or disposition.

- (v) Establishing a single auditable format on an automated system for management reporting and fiscal accounting.
 - (vi) Overhauling the inadequate maintenance systems and project management operations.
 - (vii) Preparing and forwarding a funding application to HUD for funding under the recent Vacancy Reduction Assessment Program.
4. Contemporaneous with the preparation of the three year plan, HUD will provide technical assistance for assessing opportunities within DPAH's operations for privatization and, where appropriate, to facilitate the procurement of qualified private contractors. In addition HUD will supply further technical assistance in the areas including, but not limited to accounting and bookkeeping, automatic management reporting and maintenance system improvements.
 5. HUD and the Mayor's Office will work to ensure DPAH's delivery of 300 public housing units per year for placement and occupancy by the homeless, along with on-site locations for strategic outreach and prevention. In addition, requisite social services and a continuum of care linked to this inventory will be provided from HUD funding that is already included as part of the D.C. Homeless Initiative.
 6. It is necessary that the work of the Executive Committee in administering DPAH is supported with a budget to cover costs for administrative and secretarial support, accounting and bookkeeping, and a contract for technical teams to assist on multiple needs. Examples of these multiple needs are: housing management and data systems assessments, modernization/ construction cost-estimating, surveying and engineering, establishing project priorities, resident surveys, needs assessments, and occupancy census. Funding for the Executive Committee's budget should be derived from existing sources for management improvement, capital expenses, and other allowable functions as part of the current Comprehensive Grant, CIAP, or operating subsidy to DPAH.
 7. The funds of DPAH must be segregated from those District revenues. Toward that end, you will reinstate a HUD approved Depository Agreement with a Federally insured bank as required by the Agency's Annual

Contributions Contract. We are enclosing a sample format for this purpose.

8. HUD commits to an effort to change the face and character of the public housing community in Washington, D.C. To further this effort, HUD will coordinate a major federal effort that will include participation from various other Federal agencies such as HUD, Labor, Education, Small Business Administration, Justice, and Treasury.
9. HUD will work with the Mayor's office to identify and employ senior staff for DPAH.

I appreciate you taking the initiative as Mayor to propose a more effective relationship between the City and HUD. This tragic misuse of federal and local funding in the District to address homelessness and to restore decent, safe, and sanitary conditions for public housing must not be tolerated another day. There are ample financial resources at DPAH's disposal to make this partnership succeed.

I will be happy to meet with you and personally commit to ensuring the success of this initiative.

Sincerely,


Henry G. Cisneros

Enclosure

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
Income and Rent: Housing assistance exclusion	Prohibit welfare providers from counting housing assistance (utility allowances, utility reimbursements, etc.) as income for purposes of welfare programs.	Food Stamp Act Title IV(A) of the Social Security Act	HUD will need to communicate with the Secretaries of HHS and Agriculture to obtain their support of legislation.	HUD will seek an interagency agreement with these Departments for approval of a legislative proposal. Estimated date of completion: 9/94.
Income and Rent: Ceiling rents	Establish Ceiling Rent rules that are simple, reasonable, and which approximate market rate values, to encourage retention in occupancy of working households.	24 CFR 913.107	HUD's 1995 legislation includes a ceiling rent provision that would base ceiling rents on the amounts that families are willing to pay for specific public housing units as evidenced by the incomes of families in occupancy.	This legislative proposal was submitted to Congress in 4/94.
Income and Rent: Minimum rents	Establish a minimum rent, regardless of income -- there should be no negative or zero rents.	24 CFR Parts 813 and 913	The Committee feels this would give residents a greater stake in their developments.	HUD will not pursue this proposal because of its impact on poorest families.
Income and Rent: Medical deductions	Medical deductions should be based on documented actual medical expenses from prior 12 month period, and set at that level for the year. They should not change until the next annual review.	24 CFR Parts 813 and 913		HUD will not be adopting this recommendation because of hardships resulting from unanticipated medical expenses.
Income and Rent: Flat rents	HUD should consider changing the rent system to use "flat" rents not based on income, but based on other reasonable factors (e.g., size, amenities, relative marketability, etc.).	24 CFR Parts 813 and 913	The Committee feels this would greatly simplify administration of public housing programs.	HUD staff recommends this not be adopted because of impact on the lowest income families.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
Income and Rent: Income reexaminations	Limit income reexaminations to one reexam annually. Interim reexams would be used only if income is reduced by an appreciable amount.	24 CFR Part 966.4(c)	HUD does not require PHAs to do interim recertifications. The frequency of certifications is left to the discretion of the PHA, provided they perform at least one certification per year.	No further action necessary.
Eligibility and admission: Admission of aliens	Citizens and legally-admitted aliens should be given priority over illegal/temporary aliens.	24 CFR Parts 882 and 913	HUD would need to further research immigration, discrimination and constitutional issues.	Implementation of this recommendation will be considered by HUD during development of the "Alien rule" -- which prohibits the admission of "illegal" aliens.
Eligibility and admission: Screening applicants	PHAs should be allowed to access accurate information regarding applicant criminal convictions.	24 CFR Part 960	The Committee feels that this information is virtually impossible to access due to multiple, overlapping jurisdictions. HUD should consider facilitating a system which permits PHAs to access this information appropriately.	HUD recently developed a legislative proposal which would preempt State and local laws, and override other Federal laws, to allow PHAs to obtain criminal records of applicants for, and residents of, public housing for the purposes of screening, lease enforcement and eviction. This legislative proposal was submitted to Congress in 4/94.
Eligibility and admission: Screening applicants	HUD should establish a nationwide database system to which all housing providers have access, within locality, region, or nationwide, to screen applicants and prospective tenants (e.g., 50058 data and system information should be available and accessible to all PHAs).	N/A	Once the field offices have full access to MTCs reports, access will be extended to PHAs.	HUD anticipates that PHAs will have access to MTCs information by 6/95.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
<p>Eligibility and admission: Screening applicants</p>	<p>HUD should encourage improved screening by PHAs to ensure that those admitted are most likely to abide by lease obligations.</p>	<p>24 CFR 960</p>	<p>The Committee feels that greater technical assistance should be provided by HUD (e.g., through Sample MLM Policy sections, through guidebook of best ideas of PHAs around the country, etc.).</p>	<p>HUD will initiate rule-making pursuant to relevant recommendations from the Occupancy Standards task force. The final task force report was published on 4/7/94.</p>
<p>Eligibility and admission: Metropolitan-wide waiting lists</p>	<p>HUD should encourage and/or facilitate the development of metropolitan-wide waiting lists, with maximum freedom of choice within this area.</p>	<p>24 CFR Part 1, Part 882 and Part 860</p>	<p>Under such a system, applicants would go to one location and apply for any assisted housing programs available throughout the metropolitan area.</p>	<p>Choice in housing is one of the Secretary's top priorities. PIH has already begun discussions with FHEO on how best to implement a metropolitan-wide waiting list. Further consideration will need to be given to funding such a system.</p>
<p>Eligibility and admission: Federal preferences</p>	<p>Eliminate Federal Preferences altogether.</p>	<p>24 CFR Part 960</p>	<p>The Committee advocates returning discretion to the local community and PHAs to decide, through open policy-making, who should receive housing priority in their community.</p>	<p>HUD will not be pursuing this recommendation. Preferences allow HUD to concentrate limited program resources on the neediest families. Congress would be very unlikely to go along with the elimination of preferences altogether.</p>
<p>Eligibility and admission: Federal preferences</p>	<p>Implement existing statutory authorization to target only 50% of new admissions to "federal preference" groups.</p>	<p>24 CFR Part 960</p>	<p>This would provide PHAs and local communities more discretion for selecting their admissions.</p>	<p>HUD will be publishing the Preference rule in its final form by 6/94.</p>

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
Eligibility and Admission: Federal preferences	HUD should eliminate the "Broad Range of Incomes" criteria, particularly in light of the reality of Federal Preferences.	24 CFR Part 882.960		Achieving a greater income mix in public housing is a Secretarial objective. HUD does not intend to implement this recommendation.
Marketing: Air conditioning	HUD should permit air-conditioning costs (both operations and capital) so that public housing in regions where it is needed can compete with private market units.	24 CFR Part 965	HUD estimates that paying for AC utilities could cost at least \$200 million per year if implemented nation-wide. This could not be achieved within current PFS funding limits.	HUD will not be pursuing this recommendation due to present funding constraints.
Marketing: Space conversion	HUD regulations governing the use of space (both dwelling and non-dwelling), and loss of subsidy for dwelling units converted to agency and social service space should be liberalized.	24 CFR Part 990	The Committee feels that PHAS should have maximum flexibility to manage their housing stock (consistent with their powers under state law) for the benefit of their public housing communities.	HUD intends to delegate the authority to approve non-dwelling use and limited subsidy for units converted to non-dwelling use to the field. PFS will be addressed in the revised regulation which is presently under development.
Marketing: Site and neighborhood standards	Permit PHAS to locate and market public housing units anywhere in the region in which they are located.	24 CFR Part 941.202	HUD's site and neighborhood standards prohibit PHAS from developing public housing in neighborhoods which are "impacted" by high concentrations of low income or minority residents.	Revisions are under review in HUD, and the Department will develop new guidelines. It is unlikely, however, that PHAS will be given unrestrained discretion in locating housing due to equal opportunity concerns.

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
Marketing: Marketing incentives	Permit PHA's to provide marketing incentives similar to those used in the private sector such as free rent for a period of time, etc.	N/A	The Committee feels this could help attract working families to public housing. HUD feels the public often has a hard time understanding why "incentives" are required to induce a poor family to accept government assistance.	HUD will not be pursuing this recommendation due to the negative effect it may have on public perception of assisted housing residents.
Leasing: Designated housing	Provisions of '92 Housing Act relative to "Mixed Populations" should be implemented ASAP. Regs should be simple, flexible, permitting maximum local discretion and control, within the intent of the law (current proposed rule is not the answer).	Section 622 of the Housing and Community Development Act of 1992.	A greatly simplified final rule which incorporated all of the statutory requirements was developed by HUD.	HUD published the Designated Housing final rule on 4/13/94.
Leasing: Grievance procedures	Amend or eliminate grievance procedure to conform to requirements followed by privately-owned assisted housing (governed, in part, by state law).	24 CFR Part 966	The Committee believes that grievance procedures are lengthy, cumbersome, and often used by residents as a stalling tactic to delay legitimate evictions. Public Housing tenants, like any renter in a state, can avail themselves of state law protections against unlawful evictions.	HUD agrees, in principal, that assisted housing projects should not be under a less onerous burden in this respect than public housing. However, HUD will not be pursuing a change in the law at this time due to the likelihood that such a move would be perceived as "anti-tenant".

CATEGORY	RECOMMENDATION	SOURCE(S) OF REQUIREMENT	COMMENTS	NEXT ACTION
Leasing: Occupancy standards	HUD should develop consistent, definitive, defensible Occupancy Standards, rather than leaving PHAs "hanging out there" with little guidance on balancing conflicting federal requirements and social needs.	24 CFR Part 966	The Committee feels these standards should be clear enough to protect PHAs and cover federal requirements, while still allowing local and/or individual program needs to be addressed.	HUD will initiate rule-making pursuant to the recommendations of the Occupancy Standards task force.
Leasing: Limitations on occupancy	HUD should consider a limit on the stay in public housing of non-elderly, non-disabled residents, to encourage upward mobility and self-sufficiency.	N/A	The Committee feels that this will encourage upward mobility and self sufficiency, and HUD recognizes that it is consistent with many welfare reform ideas that are under consideration.	HUD will not be pursuing this proposal. We feel that fairness demands an elaborate structure of excuses to avoid having to evict tenants whose lack of progress is no fault of their own.

THE HOUSING CHOICE AND COMMUNITY INVESTMENT ACT OF 1994

TUESDAY, MAY 3, 1994

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The Subcommittee met at 10:15 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Subcommittee) presiding.

OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. The Subcommittee will come to order.

Today's hearing will focus on the Housing Choice and Community Investment Act of 1994, the proposed housing reauthorization bill recently submitted by the Administration.

The Chairman of the Full Committee, Senator Riegle, and I joined in introducing this bill on behalf of the Administration as S. 2049, last week.

Secretary Cisneros, since taking over at HUD, I think has demonstrated great energy and vision in putting forth an agenda to improve HUD's management and to get HUD moving again. There are large problems, of course, as we all recognize, but I think it's important that we all work together in a positive and constructive way to restore HUD's credibility, to leverage new resources, and to strengthen partnerships with other levels of Government and with the private sector.

It's my strongly held view that we're really not going to crack into this problem unless we are able to develop such effective partnerships.

The introduction of S. 2049 starts, of course, the housing and community development reauthorization effort. As articulated by the Administration, the legislation reflects the important priorities of reducing homelessness, turning around public housing, expanding affordable housing, enforcing fair housing, and empowering communities.

The Administration is seeking to take some new approaches in addressing these priorities, and that is something that the Committee will be examining very carefully in the weeks to come.

My own view is that much of the needed and necessary statutory infrastructure is in place and we need to make sure that, working within that statutory infrastructure, HUD is well managed and that there are adequate resources to move some of these programs.

The Administration has identified, however, some gaps in our program delivery system, and obviously, we'll pay careful attention to these gaps as we move through the reauthorization process.

It's my hope that we can move in a prompt and yet, deliberate, fashion to examine the Administration's proposals very carefully and to see what changes need to be made in the overall statutory arrangements in order to move forward to achieve our widely held goals.

The witnesses here today represent a broad spectrum of housing interests and broad expertise in the housing and community development field. We will have two panels this morning. The first panel will include four witnesses who work in the public sector and can bring us valuable insights gained from working with HUD programs at the State and local level.

We are pleased to welcome: Mr. Al Eisenberg, the vice chairman of the Arlington County Council, representing the Conference of Mayors, the League of Cities, and the National Association of Counties. That's a heavy burden to carry all at one time.

[Laughter.]

Mr. Richard Grose, the executive director of the Missouri Housing Development Commission, representing the National Council of State Housing Agencies. Ms. Marina Carrott, commissioner of the Department of Housing in Chicago. And Mr. Ricardo Diaz, the executive director of the Milwaukee Public Housing Authority.

We're very pleased to have this able group of witnesses with us. After I turn to Senator Bond for his opening statement, we look forward to hearing your testimony. If you could, summarize your remarks. We'll include the full statements in the record. Given the time constraints, it would be helpful if in, I don't know, 6, 7, 8 minutes, you could encapsulate the main points that you sought to make.

We want to make sure that you get your points across, so I'm not going to be rigid about that. But we have another panel to follow and, as always around here, these mornings get filled up very quickly.

Senator Bond.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Mr. Chairman, for holding this hearing on HUD's housing and community development reauthorization bill, the Housing Choice and Community Investment Act of 1994.

I look forward to hearing from and reading the testimony of the representatives of groups testifying here today.

I must apologize in advance. We have a measure on the floor that Senator Bryan and I need to work out today to make sure that we have no roadblocks this afternoon. We have other meetings this morning, so I'm going to have to depart. But I do intend to review very carefully the testimony and also the questions, some of which I'll submit for the record.

I think the groups here today are excellent sounding boards. They're lightning rods for understanding the housing and community development issues facing the Nation. Their testimony on how the Housing Choice and Community Investment Act of 1994 will

affect our low- and moderate-income families, our communities, and our States is very important.

It's a particular pleasure for me to be able to welcome Dick Grose, executive director of MHDC, a gentleman with whom I've worked closely over the years. He has the role today as vice president of the National Council of State Housing Agencies. But over the years, Dick and I have worked together and I can attest to his expertise and his commitment to the development of low- and moderate-income housing.

He's currently the executive director of our Missouri Housing Development Commission, which has provided over \$2 billion in financing for low- and moderate-income housing in Missouri. If we can get the Treasury to move and enable us to use some of Missouri's carry forward tax credits, we'll do even more.

The commission has financed some 21,000 multifamily housing units in over 270 developments and over 38,000 units of single-family housing.

At the outset, with respect to this bill, I emphasize once again that I'm very much concerned over an apparent drift by HUD generally to refocus its energies away from core programs such as CDBG and the HOME program to create some 18 new programs and initiatives.

While many of these initiatives have considerable merit, I feel we cannot lose the opportunity to focus on providing solutions to help HUD administer its core programs better. We need to ensure that HUD has the capacity and expertise to manage existing programs. In particular, the HUD IG, as we all know, has warned Congress repeatedly over the last several years, and even longer than that, about significant deficiencies in HUD data systems, internal controls, and resources management. Those concerns, I feel, have to be addressed first.

I will continue to urge the Secretary and my colleagues to use the Housing Choice and Community Investment Act of 1994 as a vehicle to correct deficiencies primarily in existing programs to ensure that core programs work effectively and efficiently through adequate funding, program consolidation, and regulatory relief, in deference to responsible, local decisionmaking.

I again state my concern over HUD's budget request to reduce funding for the HOME program from \$1.275 billion in fiscal year 1994 to \$1 billion in fiscal year 1995.

There are those of you who show up for hearings on the appropriations side. I also have addressed these concerns in the appropriations hearings.

I think the HOME program is very important. I strongly support it and it deserves full funding. Most important, it is a program that works well while emphasizing local decisionmaking to address housing needs. I don't think we can overlook the importance of that.

I'm also concerned about a number of HUD proposals to modify and establish new initiatives under the FHA single-family mortgage insurance program. These proposals include a new no-down-payment program for distressed communities and increased FHA single-family mortgage insurance limits.

For example, HUD is proposing to increase FHA single-family mortgage insurance limits for high-cost areas from \$152,000 to \$172,000. I honestly question whether this reflects a refocus of the mission of the FHA program away from low- and moderate-income first-time homebuyers to higher-income families. I have some deep concerns over how these FHA proposals will affect the actuarial soundness of the fund. I hope that members of the panel will comment on these concerns.

Finally, I applaud HUD for proposing to develop a homeless block grant program as a way to consolidate and make more efficient the McKinney homeless assistance programs. We're in the process of reviewing the proposal, but the underlying concept sounds very good to me.

I'm also eager to review fully the Department's recommendations for public housing reform. As I've often indicated, I think a flexible, local approach to public housing, including rent reform to promote employment and more mixed incomes in public housing, is desirable.

I hope that we can craft a provision to create entrepreneurial PHA's that have the flexibility and the local discretion to create better communities in public housing which can act as laboratories for positive change.

Finally, I support the more flexible use of modernization funds, Mr. Chairman, for new construction where the cost of rehabilitation exceeds the cost of new construction. Just this weekend, I was home in Missouri and ran into people and communities who really need to use those modernization funds as part of construction of new units to replace ones that are beyond repair.

Again, Mr. Chairman, my thanks for holding the hearing. I look forward to working with you and other Members of the Subcommittee on this reauthorization bill and I hope we can make it responsive to the housing and community development needs of the Nation.

Senator SARBANES. Well, thank you very much for a very thoughtful statement. Of course, as always, I look forward to working closely with you on this issue in the coming weeks.

With that, Mr. Eisenberg, I think we'll—Mr. Grose, why don't you—

Senator BOND. Let's go ahead with Mr. Eisenberg.

Senator SARBANES. We'll start with you, Al, and then we'll just move right across the panel.

STATEMENT OF ALBERT C. EISENBERG, VICE CHAIRMAN, ARLINGTON, VIRGINIA COUNTY BOARD, ON BEHALF OF THE U.S. CONFERENCE OF MAYORS, THE NATIONAL LEAGUE OF CITIES, AND THE NATIONAL ASSOCIATION OF COUNTIES, WASHINGTON, DC

Mr. EISENBERG. Thank you very much, Mr. Chairman. Good morning.

For the record, my name is Albert C. Eisenberg. I'm vice chairman of the Arlington, Virginia County Board, which is the governing body of this urban community of 180,000 people.

As you noted, I'm here to testify on behalf of the National League of Cities, the U.S. Conference of Mayors, and the National Associa-

tion of Counties on the Housing Choice and Community Investment Act of 1994.

Clearly, my presence proves that economy of scale is alive and well in urban America.

[Laughter.]

Some of you may also recall that during the late 1970's—

Senator SARBANES. Or quality rather than quantity.

[Laughter.]

Mr. EISENBERG. That's what we always hope for. Some of you also may recall that during the late 1970's and early 1980's, I served as staff director of this Subcommittee and enjoy being back here today.

Senator Bond, my father is a constituent of yours.

[Laughter.]

Senator BOND. It always helps to know.

[Laughter.]

Senator SARBANES. You've covered all those bases.

Mr. EISENBERG. That's right.

[Laughter.]

Senator BOND. I went to law school in your State.

[Laughter.]

Mr. EISENBERG. I'd like to thank you all for the Multifamily Housing Property Disposition Reform Act, which made a number of changes in the HOME program. We think that's going to make this program work more effectively. We also want to take the opportunity to thank HUD Secretary Cisneros and the Administration for the bill on which I'll be commenting this morning.

In general, we think this legislation contains a number of provisions that will make our communities and their neighborhoods better housed, safer, and more economically sound. As we support much of the Administration's program, my testimony at the same time will highlight several concerns of the three organizations that I represent. The measure contains a number of new initiatives. We certainly believe that new initiatives have a place as this Administration seeks to accomplish its mission in creative new ways.

At the same time, we really ought to continue to support programs that have stood the test of time. We believe that most housing and community development programs have been effective in providing safe and decent housing and suitable living environments for our people. We think they're going to continue to do their job.

The most serious problems that these programs have experienced is inadequate funding to meet the need.

Therefore, Mr. Chairman, we would say that while these new initiatives are certainly worthy of consideration, we don't believe that they ought to be placed ahead of existing housing and community development programs which local governments believe are now effective.

The most effective program that we've got is the Community Development Block Grant Program. It works well. Yet, as others have been terminated, this one has carried an increasingly heavy load. We're concerned about the tendency to pile new eligible activities onto the program. As we do this, great care ought to be taken about how these new activities would work and what they would mean for local governments.

One new eligible activity, as framed in this legislation, would make fair housing activity eligible under CDBG. We recognize that fair housing certainly plays a significant role in opening up housing opportunities, and the inclusion of this function in the list of eligible activities is not in and of itself a problem.

We are concerned that it could become one if HUD believes that local governments have not done enough to further fair housing and withholds CDBG funds based on the agency's acceptance of a jurisdiction's fair housing plan. Now, the conditioning of CDBG funds in this regard is not clear in the legislation, but we just want to guard against the possibility.

In addition, the bill's provisions call for the resources of local government to be used as collateral for half of a new public housing modernization program for new construction. At a time when the basic mod program is being reduced by several hundred million dollars, communities here are being asked to encumber funds for a major new modernization purpose—new construction.

We think this is a problem. We understand what HUD is trying to do. It's twisting and turning to deal with inadequate funds. But we're not sure this is an activity that will bear the fruit that they hope. It really has to be seriously considered.

The new LIFT program—Leverage Investment For Tomorrow—designed to improve economic development opportunities in distressed communities, has now been proposed to be paid for out of some other program. We're concerned about this program competing with existing housing development activities.

An underfunded program, you all have highlighted, is the HOME program, originally targeted by its creators for \$2 to \$3 billion annually. The Administration request is \$.275 billion less than for this year. We think this is a very effective affordable housing tool, and because only recently a lot of administrative and legislative complexity has been cleared away, this program is only now really getting underway.

Just to note quickly before I close on two issues.

HUD has changed the way it calculates commitments for this program. Now, instead of counting the money as committed when it enters HUD's computers, it's counting it as committed when a jurisdiction has a binding contract with a subrecipient. And that's good. The problem is that this new data is not being reflected in the reports that you're receiving, and this may tend to depress the picture in terms of the use of the money. That will then not give you a picture of how this money is really being used.

Let me close with two quick issues here.

With respect to the consolidation of the Stewart B. McKinney homeless programs and the single block grant, the concept is sound. We have some serious reservations about the way its new planning board would be constructed so that at least 51 percent of its membership would be nominated by entities other than the governmental jurisdiction and the 51 percent of the funds would have to be provided to nonprofits. We think this needs another look.

Finally, Mr. Chairman, we're opposed to the provisions of the bill which would allow public housing authorities to preempt State and local law, as well as Federal laws, to obtain information on the criminal records for applicants for and residents of public housing

for the purposes of applicant screening, lease enforcement, and eviction.

Now, the situations these provisions attempt to address are critical. They have got to be dealt with. It's a terrible situation in a lot of these places. And yet, we really believe that there should not be a different standard for public housing residents than for other Americans in a democratic society.

Mr. Chairman, I look forward to working with you and your Subcommittee. We have great respect for what the Administration is trying to do and great respect for this Administration, for its programs and its work. I don't want my concerns and reservations expressed today to take away from that. But we do feel the need to have presented them today, and I thank you both for this opportunity.

Senator SARBANES. Thank you very much.

Mr. Grose, we'd be pleased to hear from you.

STATEMENT OF RICHARD G. GROSE, EXECUTIVE DIRECTOR, MISSOURI HOUSING DEVELOPMENT COMMISSION, ON BEHALF OF THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES, KANSAS CITY, MO

Mr. GROSE. Thank you, Mr. Chairman. Thank you for the opportunity to appear before you this morning. Thank you, Senator Bond, for those very gracious remarks.

We might just go ahead and take his remarks for my testimony here. Much of it follows my own comments.

Senator SARBANES. Mr. Grose, you carry a heavy burden because Senator Bond is always citing the Missouri Housing Development Commission here on the Committee when we deliberate on these various matters.

Mr. GROSE. We hope we can live up to that, Mr. Chairman.

The Senator's and my association goes back some 20 years, back to when he was Governor of the State of Missouri. His commitment to housing has always been steadfast and continued. We constantly try to live up to his expectations, and sometimes do. Sometimes do not.

As you mentioned here earlier, I'll try to keep my comments short and try to summarize, and we'll have a more lengthy written testimony.

First of all, we would like to commend HUD for some of their new attitudes. And, certainly, Secretary Cisneros has brought a new attitude to HUD. Some of his key personnel have come from the State housing finance agencies and we do have a new rapport with HUD. It has taken a long time, I think, for some of that new attitude to filter down through the operating offices.

As stated, I am the executive director of the Missouri Housing Development Commission. I'm the vice president of the National Council of State Housing Finance Agencies. We support some of the new HUD initiatives, but we're also quite concerned about some of those new initiatives from the point of view that we question whether or not they have the capability, or the staffing, that is necessary to carry them off.

We're also aware that they will be suffering somewhere around 1,700 additional reductions in work staff over the next 5 years. We

think, quite frankly, that a lot of that effort or work could be set aside or turned over to the State housing finance agencies and we could handle it.

We talked earlier, or it was discussed earlier, about the authorization level of HOME. This concerns us a great deal.

Obviously, the Congress authorized \$2.2 million of authorization earlier. It has never been funded at that level. HOME has become the very cornerstone of the State's efforts for housing in our area. It goes all the way on through to tenant-based rental assistance, to downpayment subsidy programs, to all other levels of rental production. Any further reduction of that would be devastating to our efforts Statewide.

I would also just make a comment. If you take the \$2.2 million and double it to \$4.4 million, you might not need these new initiatives by HUD, because we could take care of it at the local and State level. But, certainly, any further reduction from what has been currently legislated or appropriated would be devastating at the local level.

We have talked about the fact, or I think it has been discussed before this Committee in the past, that HUD has presented to you that the HOME funds have not been—I shouldn't say appropriately used—but not used quick enough.

I would say to you that I have never—and I have dealt in the Federal arena for now something like 30 years—seen a program used as quickly as the HOME program has been used. I use our own State as an example. The 1992 funds, and I will admit it, were slow in getting used simply because we didn't have the HUD regulations initially to know how to use them.

We have now used 100 percent of our 1992 funds. We have used, from our statistics, 100 percent of the 1993 funds. From their statistics, about 70 percent. We are ready to use the 1994 funds, we have the applications ready for them. We have the tenant-based rental assistance. We have the downpayment subsidy program. I think all other States have a similar type of record. Like I said, I have never seen a Federal program used so quickly, so fully, as the HOME program.

Underneath the single-family efforts, the national council does support the increase in the total maximum levels. I would say from Missouri's concern, we would love to see the minimum raised. I would point out, for example, Branson, MO, the new County, USA, incomes or the price of property has skyrocketed down there.

At the same time, that is still dealt with as rural Missouri. And, in rural Missouri, I think they have something like a maximum mortgage of \$48,000. You cannot buy a home between the Arkansas border and Springfield, MO, for that amount.

So that has become a real problem and an increase, at least in the low level, would serve Missouri well, and the high levels would serve places like California and New York. We do not have trouble at the high level.

Reorganization of the McKinney homeless program, we generally support the changes that are being requested there. But, again, we believe that any changes should allow for local and State control.

The fact that so much of the control is being maintained at the Federal level, I think, is ridiculous. And all you have to do is refer

back to the HOME program and underneath the tenant-based rental assistance, which requires that 70 percent of the HOME money goes to the Federal preference.

The Federal preference people are being dealt with underneath the Section 8 and voucher program. What we have is a group of people out there that is not being served. We only have 30 percent of the money that we can use for local preference. We need to have that local, State-driven authority to deal with the people who really need the housing.

Underneath the FHA multifamily risk-sharing program, we are very proud of the fact that HUD finally is getting that program started and they are announcing today in New York that the program is starting.

Our State is one of the ones that have been approved underneath the risk-sharing program. We expect to make maximum use out of it. We would request of the Senate that you remove the cap. Currently, there is a cap of 30,000 units that can be done underneath the risk-sharing program. We would like to have an extension of the program and the caps removed.

For example, underneath the cap at the present time, Missouri has been allocated 580 units. Five hundred eighty units over a 2-year period of time does not take care of our housing needs in Missouri.

Underneath the preservation program, we're concerned that HUD is backing off of their position to keep low-income housing units available for low-income people. We would like to make sure that there is a continued effort to keep our current low-income housing rental property available for low-income people.

We are also concerned underneath the public housing modernization program that the effort to deal with the public housing problem not be transferred cost-wise to the States or the localities through shifting part of that through to the low-income housing tax credit, which is already oversubscribed in most areas. We're concerned that the costs not be transferred to that.

In conclusion, we would, as I said in my early comments, like to commend HUD for their new attitude and their new cooperatives. But, we would like to extend that a little bit further. We're especially looking forward to working with this Committee to fine-tune the bill that goes through.

I might say that we've only had 1 week to look at the bill. We haven't been able to study all of the aspects and we'd like to reserve the right to bring back further comments to you.

Thank you very much.

Senator SARBANES. Well, thank you very much, sir.

I must say that, for only having a week, you've really done a very fine job on this prepared statement. And I know you left pieces of it out in order to summarize it. I've had a chance to go through it and it is very helpful. We appreciate the obvious work that went into it, which is true of all of the statements that we're receiving here today.

We appreciate it very much.

Ms. Carrott.

STATEMENT OF MARINA CARROTT, COMMISSIONER, CHICAGO DEPARTMENT OF HOUSING, ON BEHALF OF THE NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION AND THE ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES, CHICAGO IL

Ms. CARROTT. Mr. Chairman, Senator Bond, I'm Marina Carrott. That's spelled with two T's to distinguish me from a vegetable. I am the commissioner of housing for the city of Chicago.

I'm honored to be here this morning to testify on behalf of the National Community Development Association and the Association of Local Housing Finance Agencies on the Housing Choice and Community Investment Act of 1994.

I've provided a copy of written testimony from these organizations which I would like to have entered for the record.

Senator SARBANES. It certainly will be. Thank you.

Ms. CARROTT. I would like to comment on the experience of the city of Chicago in employing Federal funds for housing, particularly those allocated under the Home Investment Partnerships Program.

We were first able to access home funds in May 1992. Since that time, the city of Chicago has expended \$60 million of HOME funds to finance the new construction or complete rehabilitation of 1,680 units of affordable housing. HUD's Cash Management and Information System reflects the fact that 100 percent of our 1992 HOME program dollars are committed and just 75 percent of our 1993 allocation is committed.

However, in reality, all of our 1993 dollars have been designated for various project financings. We experienced the same discrepancy as Mr. Grose between our commitments to project financing and what HUD reflects on their system, and, I think, for many similar reasons. Affordable housing financing is an extremely complex series of transactions. Many projects spend a long time in a predevelopment and approval phase before they can be fully and carefully documented and disbursed and start to be reflected on the HUD system. But that doesn't render these projects any less viable nor the needs of the residents that they are intended to serve any less real.

Just to give you an example of how quickly commitments can hit the HUD system, in November 1993, the HUD system showed that Chicago had committed zero percent of our 1993 funds. Just 5 months later, in March of this year, we were up to the 75 percent level. As I've said, in reality, all of our 1993 dollars are committed and we, too, are awaiting the ability to access 1994 money.

In Chicago, since January 1, 1992, which really dates my term as commissioner and so, for me, is the written history of the department of housing, we've committed more than \$110 million of HOME, HOME match, and CDBG funds to benefit and provide affordable housing for more than 8,000 individuals and families. Three-quarters of this money has gone to benefit households who earn no more than 50 percent of the median income for our area, in round numbers, \$24,000 for a family of four. And a third of the money has gone to benefit households who earn no more than 30 percent of the area median, or no more than \$15,000 for a family of four.

We've expended \$22 million to finance the new construction or rehabilitation of 1,024 units of single-room occupancy housing. These units provide comfortable, affordable accommodation for individuals who would otherwise be living in unacceptable conditions, in shelters, or on the streets of our city. Thirteen million five hundred thousand dollars has assisted special needs populations, including the elderly, disabled, and people who have been diagnosed with HIV or AIDS.

The balance has gone to assist low-income families. And yet, the need for affordable housing in the city of Chicago remains immense. We estimate that 30 percent of our population lives in sub-standard conditions or in housing that they're unable to afford, or in a combination of both.

But squalid living conditions, such as those in which 19 children were found on the west side of our city this spring, and family incomes that are so strained by housing costs, that there's no way to pay for decent nutrition or warm clothing, provide a terrible handicap to these households and it makes it almost impossible for them to break out of the cycle of poverty.

In Chicago, minority families suffer particularly. These are households who are already affected by other forms of overt or subtle discrimination.

I urge you to support the efforts of Chicago and all of the other jurisdictions which employ HOME and Community Development Block Grant funds by maintaining Federal funding for fiscal 1995, at at least the current level of \$4.4 billion for CDBG and \$1.27 billion for HOME, and to consider increased funding for fiscal 1996.

I'd also like to say a few words about the proposed consolidation of the McKinney homeless programs.

We all applaud HUD's efforts to streamline and consolidate. I'm particularly gratified at the prospect of being able to submit a single application for a formula-based allocation for homeless programs. However, I'm concerned that the infrastructure which HUD proposes to create around the application process is unduly cumbersome and is going to be duplicative of the proposed consolidated planning process. I also think it may simply be impractical for local governments to administer.

I readily acknowledge HUD's commitment to including community-based organizations and not-for-profit organizations in defining and serving the needs of the homeless. However, in Chicago, and many other jurisdictions, that's already the case. We formed strong partnerships with these groups. They received more than half of the money I referenced earlier and our homeless programs are administered through not-for-profit agencies virtually exclusively. Consequently, I see no reason for HUD to dictate a precise form of cooperation to local governments that are already cooperating with not-for-profit organizations.

I've provided further remarks about the McKinney homeless initiatives in my testimony, as well as comments pertaining to public housing, fair housing, and the FHA.

Thank you very much.

Senator SARBANES. Thank you very much. Again, as I indicated before with the other two people, we very much appreciate this

very comprehensive statement. We'll work our way through it very carefully and I appreciate the presentation you've just made.

Mr. Diaz.

STATEMENT OF RICARDO DIAZ, EXECUTIVE DIRECTOR, MILWAUKEE PUBLIC HOUSING AUTHORITY, ON BEHALF OF THE COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES, MILWAUKEE, WI

Mr. DIAZ. Mr. Chairman, my name is Ricardo Diaz. I'm the executive director of the Milwaukee Housing Authority. I'm testifying today on behalf of the Council of Large Public Housing, CLPHA whose 60-plus member authorities own and manage 40 percent of the Nation's public housing stock, plus hundreds of thousands of Section 8 certificates and vouchers.

Housing Authorities, as the other speakers have said, admire Secretary Cisneros' vision for changing public housing through the HOPE VI initiative. The challenges of this new program have encouraged HUD and PHA's and the residents to work together more closely to rethink public housing and thoroughly reassess the way they do business.

The Secretary has taken some very bold steps that have stimulated our thinking about some effective strategies for public housing and we are encouraged to hear that this new thinking is now going on throughout HUD.

HOPE VI offers a new opportunity and encourages partnerships among public and private agencies that have sometimes not worked together very effectively. For example, local organizations and Government have had to re-examine their services to public housing residents who often live in isolated communities.

HOPE VI has brought our staff and residents closer together in planning changes at one of our developments. Resident participation has never been greater and there's a renewed interest and enthusiasm about the possibilities for improvements of our HOPE VI development.

I think our residents have developed some excellent recommendations which they are now anxious to begin implementing. I realize that every new program requires time to develop. But the delays have been somewhat disappointing.

HOPE VI offers many opportunities for our community, not the least of which are jobs for our residents and the entire Milwaukee community. I look forward to the day in the very near future when we can actually begin to implement our plans.

Mr. Chairman, and Members of this Committee, I would like to thank you for having initially made the proposal to establish the National Commission on Severely Distressed Public Housing, a commission which in turn deserves credit for making an excellent set of recommendations that have been the basis for Congress enacting this important new program.

I would also like to thank Senator Barbara Mikulski for initiating the HOPE VI program and including over \$1 billion for it in her appropriations bills for fiscal year 1993 and 1994. She has made an exceptional concern that this new program should break the old bureaucratic patterns and allow PHA's and residents to work together in new ways.

I also want to thank you, Mr. Chairman, and Members of the Committee for your support in creating and passing section 24 after the HOPE VI was passed by the Appropriations Committee. Section 24 explicitly authorizes a new program for severely distressed public housing and HUD has begun to look at the possibility of conforming HOPE VI to section 24, as allowed by the HOPE VI legislation. We see many opportunities for improvement in this bill.

Although 1993 was a difficult year for the Administration, HUD has tried to revamp it and move it forward. HUD is now making real progress in dealing with the issues related to HOPE VI.

Mr. Chairman, I think there are some basic principles we are trying to achieve under HOPE VI.

First, we are trying to achieve a unified program, rather than simply pulling together pieces from fragmented programs in the past. This needs to be done in coordination with other programs going on in the community.

Second, we seek to have these revitalization activities freed from the requirements of HUD's site and neighborhood standards, which restrict the placement of replacement units. Virtually all of these revitalization activities have, as one of their primary goals, the deconcentration of low-income and minority households on public housing sites that currently have a high density of such families.

Third, we are seeking your help in breaking free from the incredible number of rules and requirements and regulations that have prevented public housing authorities and residents from successfully turning around severely distressed public housing previously. It is absolutely essential that we be freed from excessive red tape and allowed to carry out these activities in new ways.

For example, we need the flexibility in achieving greater economic mix and a broad range of income at our developments. Most public housing authorities would like greater freedom to restructure the occupancy of the developments using revised local preference rules. And it would be helpful if they could set rents more flexibly using ceiling rents based upon local neighborhood comparability.

In these and a variety of other areas, it is very important to the success of the program that public housing authorities have more freedom from the current provision of the Housing Act of 1937.

CLPHA strongly supports the provisions of section 214 which allow the Secretary to waive certain statutory provisions of the Housing Act of 1937. However, we are concerned that the provisions of the bill fail to go far enough to give public housing authorities the solid sense of support they need. Rather than simply authorizing HUD to grant waivers to these provisions of the Housing Act, we encourage you to state in this bill that public housing will be allowed to have this flexibility as a matter of right.

In addition, HUD's proposals in section 214 might have the effect of taking away, on the one hand, what they seem to be offering with the other, since the proposed language, that is, "In no circumstances may the Secretary waive, or specify alternative requirements for, statutory requirements related to nondiscrimination, fair housing," etc.

We appreciate what HUD is trying to achieve here, but we also know that that past efforts to deal with impaction rules, local preferences, site and neighborhood standards, and special rent levels have often become entangled in the difficulties and past interpretations of complex existing civil rights statutes and regulations. We urge that it be made clear so that public housing authorities do have greater flexibility in these areas, because of the special nature of the community revitalization efforts they are undertaking as part of this program.

Subsection (e) of the general program requirements of section 24 would be amended to allow demolition and replacement on site or in the same neighborhood if the number of replacement units provided in the same neighborhood is fewer than the number of units demolished as a result of revitalization. This would relieve the public housing agencies of complying with the site and neighborhood standards if replacement was on site in the same neighborhood. This is a major issue facing the revitalization program.

We welcome the language proposed by HUD, but think it should go even further and not be restricted to the same neighborhood but be extended, as a matter of right, to any neighborhood.

Public housing authorities need a clear statement of authorization from Congress as to what they are going to be allowed to do here. Up to this point, HUD has told us one thing, but it never quite seems to materialize. And out in the field, when that happens, people come not to believe and you tend to lose credibility.

We are also grateful to Representative Roukema for sponsoring a bill on the House side that would amend section 24 to clearly allow flexibility to PHA's to expand eligible criteria in which planning grants may be used to expand the allowable methods of providing housing replacements, establish a block grant approach to funding this program, allow sole source procurement for the community service and support services, and recognize that costs will be different for this program than under the public housing modernization.

In closing, I would like to once again say that we in Milwaukee are ready to move forward. Secretary Cisneros has set out a vision and organizations such as CLPHA are grateful for having the opportunity to interact with HUD on developing some of the program specifications.

Now, in some cities, especially because of the short construction period, we cannot afford to wait any longer. Every day that passes is another day that residents become more frustrated. We are now entering an irreversible process. The residents' expectations have been pretty low in the past. Now, you've got their attention.

Thank you very much.

Senator SARBANES. Very good. I appreciate your statement.

Let me just make a couple of comments and then I have a few questions before we go to the next panel.

First of all, I think it's very important for you, both individually and with the groups that you're here representing today, to continue to submit to the Subcommittee further analysis of the legislation which HUD has submitted. As I indicated earlier, I am very impressed by the depth to which you've been able to go in a very short period of time, but we obviously welcome additional materia

as soon as you can get it to us because we want to try to start working through it and synthesizing it.

We very much want to move a bill in the reasonably near future. I think it's important to keep this momentum going. We pushed very hard to get the two housing bills through that have been passed since the new Administration took over when they asserted that they needed additional tools or were confronting certain impediments in existing legislation. We want to continue to do that. We want to make sure that the ball stays in their court downtown.

We want the statutory environment to be as clear as it can be so they can push forward.

I'm interested in this issue of the discrepancy between what HUD statistics reflect on the commitment of HOME money and what your own statistics reflect. Any further material you can submit on that point would be helpful. It's important because there are some who are criticizing the HOME program on the basis that it's not adequately committing the money. Of course, if in fact that's the case, then, there's a problem, because you're providing monies and it's not getting out there. Then, they say, well, maybe we ought to do other things instead.

On the other hand, if it is in fact being committed, with a local match—which, of course, increases the pool of money—and with the discretion that the localities have, and with the leveraging of the private sector that was intended to be a consequence of HOME, then we need to know that.

In fact, Mr. Grose—was it Mr. Grose or Ms. Carrott or both of you—indicated that this program was moving much faster than most Federal programs that you had had experience with.

Let me ask you this question. I'm interested. Mr. Eisenberg suggested, at the outset, that there was an adequate framework and we needed to make the existing programs work and that we only lacked resources, and we didn't need a lot of statutory changes. Generally, we believe that most of the existing housing and community development programs have been effective and will continue to be so. You talk about the shortage of resources.

Now, we took this up with the Secretary because, of course, he comes in and he says, look, these programs are not working. We've got a big problem in this field. We've got a tough housing problem and we need to do other things. This is oversimplifying. It's not entirely fair to the Secretary, but others have said the same things.

How do you square a perception that we're lagging behind in dealing with this affordable housing problem with the assertion that the existing programs are effective and will continue to be so? I indicated, at the outset, that I thought the statutory framework was a good one that had been put in place. How do you square that gap? Anyone who wants to answer that?

Mr. GROSE. Mr. Chairman, if I might comment, primarily on the HOME program because that's the one I'm most familiar with.

Underneath the HOME program, underneath the HUD system, they only count it as committed when a, quote, specific project is reserved for money.

For example, we would enter into a binding agreement with, say, a given community that they would receive, and I'll just pull figures out and say, they had \$300,000 for development within their

community. We would consider that as a binding agreement underneath our portion of it. But HUD would only call it committed when the city itself has turned around and has selected a given homeowner or a given developer to develop a rental project.

That is a problem that may have already been solved. HUD has already agreed to count that as a binding commitment, but it is underneath a new rule that they're promulgating right now and it is not in effect yet.

My experience is that when we came out with the new monies, and it does take a period of time, and underneath the rental housing program, production program, for example, when you do an advertisement, you normally have to do somewhere around a 4-month advertisement to allow somebody to put together a proposal to you. You have to go through the review process, et cetera. So, usually it takes you anywhere from 6 months to 1 year before you can actually commit funds on a rental production program.

If you go back to the time in 1992, when the 1992 funds came out, even though the funds came out comparably early in the year, the regs to administer those did not come out until almost the end of 1992. So, really, you're into 1993 before you could actually use those funds.

To think that those funds are actually 100 percent used or committed by now, I think, has been almost a miracle underneath the governmental system. If you look back at almost any other program we had, whether it be the old section 236, the section 221(d)(3), the Section 8, whatever it was, the rental production program, it took 2 to 3 years, normally, to gear up the production stream. I think HOME has been a real success.

Ms. CARROTT. I'd comment on our experience with rental projects. There's simply a long period of time between the determination that a project is viable and feasible and ought to be financed, and the time when plans and specifications are finalized, the project's been billed out, and we have a sufficiently precise construction budget that we can go to our city council with an exact dollar amount for financing.

Then we have to document and close the transaction, which involves another 60 days. So we know that we've got to go, probably 6 months, at a minimum, before something would be reflected as set up on HUD's system.

Senator SARBANES. Are you getting a good reaction out of the private sector on the HOME program?

Ms. CARROTT. Very good. The initial reaction was we'd rather have block grant money. And we said, so would everybody. We'd rather have CDBG money. But we've got a lot of HOME money this year and they have all been able to accommodate themselves extremely well, even to some of the fairly onerous provisions.

Mr. EISENBERG. Mr. Chairman, with respect to the specific question you asked about the discrepancy, HUD is obviously trying to do a lot of new things, but they have got to do it within the existing budget framework. It's a tight situation, as nobody knows better than you.

We understand what HUD is attempting to do, and many of its ideas are very good ideas. The question is, where are they going

to get the money? If there isn't additional money, they have got to appropriate it from other programs.

It's a problem. As far as the programs go——

Senator SARBANES. Where would you prefer that the marginal dollars be spent, in the competition between new programs or in the existing programs for scarce resources? Or is it not subject to a general answer? You have to look at each proposal and make a judgment.

Mr. EISENBERG. I really think you've got to look at each proposal and make a particular judgment as to where the money is going to go. There may be, in some of these programs, some duplication of effort. In other programs, there are some new things. But, the basic framework, and I think your statement is very important, the basic framework of law that is in place is a very good framework.

One of the things that localities have a great deal of trouble with is that every time there's a major change, it takes time for the Federal Government, through its regulatory process, to get up to speed and then it takes time for the local government to get up to speed. So you've got this time gap between the old and the new.

Senator SARBANES. And the time for the private sector to adjust to the changes in the public sector.

Mr. EISENBERG. That's all part and parcel of it. As far as the CDBG program is concerned, it is the workhorse of our community activity predominantly for people of low- and moderate-incomes, and the whole range of issues that it covers. The fact that Congress has an inclination to add eligible activities to the program gives some indication that it thinks that the mechanism works.

As far as the HOME program is concerned, it's not a perfect program. The requirements on it can be very difficult in some cases. Arlington County uses the program. But we will tend to take our HOME money and gather it all into one project, or major pieces of it into one project, as opposed to spreading it, because it's easier to take care of all the requirements in one project than through all of the projects that we have to deal with.

Senator SARBANES. Does Virginia put State money into housing, affordable housing?

Mr. EISENBERG. Yes, in several ways. I also happen to wear yet another hat. I'm on the State housing finance agency for Virginia, so I see it operate in that regard.

Virginia has something called the Virginia Housing Partnership Fund, which is about \$50 million over a biennial budget. It can go for anything from congregate facilities and homeless facilities, to multifamily housing, or to helping with the plumbing out in the western part of the State for low-income people.

Senator SARBANES. But that's money appropriated at the State level by the legislature.

Mr. EISENBERG. That's right.

Senator SARBANES. And is that the case in Missouri as well?

Mr. GROSE. Mr. Chairman, in Missouri, we put in, in a normal year, \$10 to \$15 million in subsidy money to affordable housing. That comes from commissions on fund balances and from earnings that we have generated through the years.

Senator SARBANES. It's not appropriated by the legislature?

Mr. GROSE. It is not appropriated by legislation, no.

Senator SARBANES. How about in Illinois?

Ms. CARROTT. I'll speak for the city of Chicago. We meet our HOME match requirement in cash. We make a contribution from a dedicated revenue source to the city's low-income housing trust fund and we finance our own city housing programs from the corporate budget.

Senator SARBANES. And in Wisconsin?

Mr. DIAZ. In Wisconsin, the State does have a housing agency, not at the city level, but at the State level.

Senator SARBANES. Because one of the things that the HOME program has done, at least in some States, is that it has gotten the States, for the first time, to put in State money for housing in order to meet the HOME match.

That apparently happened in Texas, as I understand it. That, in fact, was one of the things we were trying to achieve when we passed the HOME program. We actually tried to get that kind of response.

Mr. EISENBERG. It's become that way in Virginia. The Virginia Fund was started actually in 1987. But it's certainly become that way.

Our State agency also has a fund and I will tell you Arlington County devotes or matches HOME money by more than 50 percent.

Mr. DIAZ. Mr. Chairman?

Senator SARBANES. Yes.

Mr. DIAZ. I wanted to comment on your question regarding the new versus the existing programs.

I think our position is that it is important that you fund existing programs that are working at the appropriate level. Certainly, the modernization and operating subsidy, we think, in this budget, did not fare well, and we think that that needs to be brought up to the appropriate level before one begins to identify new programs to fund.

Senator SARBANES. What's your view of using modernization money for demolition and replacing?

Mr. DIAZ. I think it's an interesting proposal, one that we just recently received.

We would prefer that at least, we'd be more excited about it if we would know that our modernization was being funded adequately. And I think that it may work. In some communities, that may be the right answer. But I think it needs to be looked at thoroughly before one can just say blanketly that one can approve it. One of the difficulties, Mr. Chairman, with public housing is that, unfortunately, the few public housing authorities throughout the country that receive the majority of the publicity are not reflective of public housing as a whole in this country.

Senator SARBANES. We did a hearing here where we brought in the success stories. The hearing didn't get a lot of attention, unfortunately, which is one of the problems. But we thought we'd bring in some of these public housing authorities that are recognized as running good public housing and really meeting a need. It was a very interesting hearing.

And it's an interesting question. Why are some cities able to run decent public housing with no major problems connected with it

and that is adequately responding to people's needs, while other cities seem to be unable to do so?

Mr. DIAZ. I can only give you my response, Mr. Chairman, and that is that there is, I think, a size that one can actually manage that is appropriate. And I think that if you go beyond that point, it may not be manageable any longer. There are certainly some highrises for family development that are obsolete and really should not be around and in those cases, it may be very appropriate to have some very unique responses.

The second thing, in our city, I'm part of city government. And we work hand in hand. We're not an isolated piece from the rest of the community.

I think for too long, and I hope that the HOPE VI program really brings that out, public housing residents have been left out of the community as a whole. We have a different system of how we deal with public housing residents. I think we need to make sure that public housing residents are citizens, too.

Senator SARBANES. There are a number of new programs that they're proposing for promoting economic development in the HUD proposal. I wondered if you have any general reaction to that.

Mr. EISENBERG. The problem is not the program or the idea itself. The LIFT program is, I guess, a rough second cousin of the old UDAG program. They're all designed to provide some monies to the localities to partner with other kinds of funds, particularly private funds, to do something that perhaps could not otherwise get done. The question is where does the money get taken from? What loses over here to fund this program over there in some kind of zero-sum game?

With all due respect, part of that question has got to rest with the budget process that the Congress has. If Congress sees a value in yet an additional economic development initiative outside the tools that already exist from EDA to CDBG, then it ought to take advantage of the opportunity. But, if it doesn't, if it doesn't have the money to do that, then it's got to look at the existing programs and say, well, can these fulfill the need that this new one is trying to meet? And if not, then we either have to make it do that or we have to suffer the consequences and not do the additional activity that this new program is designed to do. But, again, we're dealing to some extent with a zero-sum game when you propose a new program that takes from the existing one.

Mr. GROSE. Mr. Chairman, you brought up an interesting subject there and it's almost one that you can go forever on. But, clearly, if the economy was such that all people had a decent income, we wouldn't need the affordable housing programs we have. And, also, as we take a look at, as we try to deal with our housing problem and get people through the cycle where they don't need or they're not homeless any more and they don't need the deep subsidies, you also need a lot of other support services along with that.

We, at the local level, I think, after many, many years, are starting to learn that, that you can't just provide housing alone and say, here's housing to be successful. It takes a lot more to be that.

I think this comes up to the fact that programs can't be designed in Washington and then handed to the local level and say, make

it successful. Programs need to be designed at the local level to deal with all the various necessary items that we must deal with.

I think discretionary money down to the local and the State level is the item that's most important so that we can match these needs at the local level as they are met, not as they happen to fit into a nice little niche, how the money comes down and we say, gee, there is umpteen million dollars coming down from the Federal level. We've got to design some way to get it, which does not necessarily meet the local needs. I think local money, discretionary, is what we are really in need of.

Ms. CARROTT. Mr. Chairman, I'd just add to the earlier comments, the fact that HUD has just recently relaxed the regulations on its existing economic development programs. I think we would all benefit by the opportunity to live with the greater flexibility that has been provided before we start to deal with the framework of yet additional programs.

Senator SARBANES. We helped to move that along.

On your general statement about the interrelationship between the housing and the general economic framework, I'd just make this observation, that this process where the Federal Reserve now is raising the interest rates creates a lot of very difficult problems, in my opinion, because it threatens the economic recovery. It makes housing more expensive in very significant ways, and there's no inflation problem. We're raising the interest rates to preempt a problem that is not there and what we're going to do is not have a preemptive strike at inflation. We're going to have a preemptive strike at economic growth and employment, unfortunately.

I want to ask two questions and then we'll move to the next panel.

The Administration is proposing that the public housing authorities, in effect, borrow against future monies they will receive in order to move now to demolish and replace. I guess the theory is that we've got this problem here staring you in the face. If we do it year-by-year, as we get funds, we never really make an impact on it.

Why don't we get a big sum of funds up front, and really do something about it? That means in future years, we won't be able to do as much because a portion of those monies will be pledged to paying off what we did up front. But that's better than having it happen over 10 years and you never get enough critical mass to really register. What's your view of that thinking?

Ms. CARROTT. I'd like to comment. We very much support finding a vehicle that will allow public housing authorities to accumulate enough funds to have an immediate and significant impact. However, I'm quite concerned about the prospect of pledging Community Development Block Grant funds, especially future years' allocations as security for those loans.

I've explained to you that in Chicago, we've used substantial amounts of those dollars to create private housing. Secretary Cisneros, and even Mr. Lane, the head of our Chicago housing authority, has stated that privately developed housing ought to replace publicly owned and operated housing. And while I think we're very successful at financing the private sector, we've also come to appreciate the risk involved in these loans.

Senator SARBANES. What about pledging the future modernization money, not the CDBG's?

Ms. CARROTT. I think that would be quite an acceptable vehicle. That was, in fact, where I think the program started out when it was first being discussed.

Senator SARBANES. Does anyone else have a reaction to that question?

Mr. DIAZ. Mr. Chairman, I think it's an interesting proposal. But, as you know, modernization money is subject to appropriations annually, and so how does one guarantee that those monies, and if you're talking about the local level guaranteeing it, I do not know of many mayors who are willing to at least go that far at this point. I do think, though, that it's an interesting approach and one that needs to be looked at thoroughly. I think the intent is in the right direction. The other thing that I would say—

Senator SARBANES. Well, it is true it's subject to appropriation. But suppose one made the assumption that you're going to get this amount of modernization money over the 5- or 10-year period. Then someone comes along and says, well, look, instead of paying it out that way with what we can do, let's take it all, or a good part of it, and put it right up front and do what we can do with it up front, and then in subsequent years, we won't be able to do as much because we'll be using that money to pay off what we did up front. Now, is that a prudent way of thinking or is that an irresponsible way?

Mr. DIAZ. I guess the only thing that I would add to that, as long as those communities where you were doing it—again, it goes to the blanket—authorities had a proven track record that they're spending modernization money adequately, that they have all of the fiscal checks and balances in place, and that, in fact, this money, if given to them, could be spent in a wise fashion.

With those safety measures, I think they could be, in some instances—I'm not sure that we would be one of those that would take advantage of that program. But I think perhaps for some of the larger authorities, that would be a welcome, at least, additional resource.

Senator SARBANES. Anyone else want to add to that?

[No response.]

Now the other question I want to put to you is this: On Thursday, we're having an oversight hearing on HUD management issues with the four HUD program Assistant Secretaries. Do you have in your mind now any suggestions to improve HUD's management? What effects do you perceive the field reorganization will have on your own relationship with the HUD field office?

Is there anything in this area? I know it's not what you were requested to address here this morning. But since we're doing this oversight hearing on the management, if you have any particular things that you're aware of, please pass them on now. I'm giving you a chance, indirectly, to put some questions to the HUD program Assistant Secretaries.

Mr. GROSE. Mr. Chairman, I would say that the one concern that I have in the reorganization is that it appears to be taking the authority away from what little authority they did have, from the

local offices and moving the final authority back to Washington, DC.

Now, I have read the literature that has come out and, in fact, they're saying there's going to be more authority there. But what I'm concerned about is that all the line functions, if you deal with the insured program, you deal with CDBG, or if you deal with public housing, there is nobody now at the regional level or the area office that has overall say-so for that region.

It has to come clear up to Washington before there's any cross-over between those various Departments. I'm concerned that you have to go to too high a level or clear to DC before you can get an answer on a lot of items. And that does concern me.

Mr. EISENBERG. Mr. Chairman, that's a good point. HUD, I think, is trying to address that by pushing a lot of the decision-making down to the local area office level.

But I think the extent to which you all can probe HUD's communication with local governments on a regular basis by the people who are in charge in these local offices, I think that's something that would be very important to lock in, because if we've got to fulfill a number of responsibilities at the local level with respect to HUD programs, we've got to have not just open lines of communication, but, as the gentleman said, some decisionmaking authority at that local level so that we can get the answers quickly so that we can get the programs to work as they should.

The other thing I can't stress enough is the importance of the change in the way HOME funds are counted. I'll tell you, it drives our local people crazy to try to meet HUD's requirements, in terms of how to get things ready for computer entry, when we already know we've got these funds committed.

Those kinds of bureaucratic hoops that we've got to jump through, again, the extent to which we can work with people closer to the local level, I think, would make things a lot more easy for local governments and the people that we represent.

Senator SARBANES. Well, this has been a very helpful panel. My own perception is that we've got some leadership at HUD now that really wants to move things. You've all indicated the same here today. I perceive our job is to just keep this ball rolling.

I think there is a considerable amount of infrastructure that's been put in place for the delivery of housing at the State and local level, and in the private sector. Of course, we need to maximize the use of that available infrastructure.

Again, we very much appreciate the care that went into these statements. And any additional material you'd like to submit to us, if you could get it to us promptly as we begin to work through this legislation, we'd appreciate that very much.

Thank you. It's been a very good panel.

Ms. CARROTT. Thank you.

Senator SARBANES. If the next panel would come forward and take their seats, we'll start the second part of the hearing in just a moment.

[Recess.]

Senator SARBANES. Chairman Riegle was not able to be with us this morning. He very much regrets that. He's taken a very keen

interest in this issue and he submitted a statement for the record which I will have included at the opening of the hearing.

Our second panel consists of: F. Barton Harvey, III, the chairman of The Enterprise Foundation, Columbia, Maryland; Cushing Dolbeare, president of the National Low-Income Housing Coalition; and Ms. Sandy Beddor, director of transitional housing with Family Tree, Wheat Ridge, Colorado.

We're very pleased to have you before us. Again, as with the previous panel, we will include the full statements, and if you could summarize, we'd appreciate it. I think we'll start with Bart and then just move right across the panel.

STATEMENT OF F. BARTON HARVEY, III, CHAIRMAN, THE ENTERPRISE FOUNDATION, COLUMBIA, MD

Mr. HARVEY. Thank you, Mr. Chairman. It's a pleasure to appear before you again. I'd like to make some general comments on HUD's proposed bill, and then focus on its impact on the nonprofit community-based movement.

I'd like to start, however, with some of Enterprise's own experience which, I think, is instructive as to where the nonprofit movement is today.

As you well know, we were founded in 1981 by Jim and Patty Rouse. And in the intervening years, we have just passed the \$1 billion mark as far as investment of loans, grants, and equity investments, all in nonprofits in 150 communities across the country, 388 nonprofit groups, and helping to provide 36,000 units of housing, all for very-low-income. Thirty percent of that is for formerly homeless individuals.

So there is a very healthy, nonprofit, community-based movement that's out there and Enterprise is one of many others that is working on this agenda.

We start, of course, with housing, but that's only the beginning. In most of the communities in which we're working with nonprofits, only the nonprofits are working there because the private sector simply cannot work. Our issues are not only housing, but other related issues of those distressed communities. I'd like to touch, first of all, more broadly on the Administration's point of view in this bill.

As you're a classicist, you always heard that Secretary Kemp kept saying his task was to clean the Aegean stables. He was either working with diverting the river or damming the river, depending on your point of view.

For Secretary Cisneros, let's hope that A River Runs Through It, as far as this HUD goes, because he's got a terrifically difficult job that he inherited. But from all of our points of contact, he's got really good people working on the problems, and in many different ways.

His strategies in this bill are those of an emphasis on improving neighborhoods, while at the same time offering residents mobility and choice. Those are place-based and people-based strategies.

I don't think they're in conflict at all. They both need to be pursued, and you'll come down to the decision of how much money do you place on people-based versus place-based strategies?

I think a lot has been cited on Gautreaux and other people-based strategies. However, if you look at Gautreaux, you'll see that many of the people in that experiment, that moving to opportunity experiment, actually did not stay in those areas of opportunity. They came back into the cities. You couple that with NIMBY. A lot of what we're dealing with today has to be place-based strategies.

I'd also mention that everywhere Enterprise goes, the first thing the mayors say is we have a middle-class agenda, a middle-income agenda. What we want to do is bring the middle-class, middle-income people back into our cities.

Inevitably, our response is that there's no way that you can buy your middle-income or your middle-class back into the cities. If there's perception of crime or fear of crime, if there aren't services that are delivered, if the schools don't work, you're going to continue to bleed your middle-class.

A lot of work needs to be done on those most distressed areas, which are the ones that have the highest crime, which are germinating out from those areas to other parts of the cities.

I'd also add that we are well aware of the budget difficulties, and Cushing, I'm sure, is going to tell you that we're not properly funded. We don't think we're properly funded. But we understand the stress that the Federal Government and State and local governments are under.

Part of any agenda has to be to more efficiently use the money that we have now and to combine it with other Federal programs in other areas, not only HUD but HHS and other Departments.

All three of those points are importantly contained, not in this legislation, but in the administration effort, which is the empowerment zones and the enterprise communities. That's trying to get actions across the different Federal agencies.

Those points will be reflected in this bill as to how flexible these programs are.

I agree with you. I think we've got a very good platform in the current legislation. But, how flexible are these programs? How can they be combined with other programs? How can they be used effectively by local governments? And I think that's one of the key issues that we should look at.

I would applaud the Administration for what it's trying to do in homeless housing. I know there's a number of issues, and you'll hear on this panel a number of issues that still need to be worked out to protect the program. But, I think, inevitably, we're going to head down the route of trying to be more comprehensive and to simplify some of the regulations and the procedures and the funding processes we go through.

In public housing, where things don't work, I think we have to try new approaches. I think there's a lot of eminently thoughtful and useful suggestions that are coming forward.

There's one point at which I really would disagree, and that is on the HOME program and the proposed funding for the HOME program.

I think we struggled for 6 to 7 years from the inception of what HOME should be. We're finally getting it to where it was first proposed some 6 or 7 years ago. It is being used, as you heard from the last panel. It is flexible. It is meant to be gap financing.

Finally, it can begin to be used with some more amendments with other housing programs and other types of programs, and it's being defunded. It's being cut. And so, we would say that funding HOME at the proper level and making it a permanent part of the landscape is very important.

I'd also suggest that the technical assistance funds that were meant to build the nonprofit, community-based part of this should get out on the street. Those were section 233 technical assistance to help with the organizational capacity of the nonprofits.

Senator SARBANES. We hit the Secretary on that very hard when he was here.

Mr. HARVEY. I'm glad you did.

Senator SARBANES. They're holding up the funds while they're trying to, quote, reorganize the program. That doesn't make sense. They should move those funds out and then if they want to reorganize, that can come later. But we need those funds out there.

Mr. HARVEY. I would agree. I'd finally say, and this I don't think conflicts with my other testimony, that HUD needs some discretion for its outreach with the private sector, with the foundations.

It's doing interesting work with foundations and others and groups that can utilize money. I quote the Community Viability Fund which it's proposed for \$130 million, which is one of those efforts trying to outreach and to use money in a discretionary way.

I think the matter is not how many new programs, but what is the size of the new programs vis-a-vis the funding of other programs.

I think Secretary Cisneros needs some discretionary money and funding to try innovative things, to bring in private partners, to try things he can't do through his normal programs. It's really a matter of what is the size of that versus the overall size of what he's proposing.

Thank you very much.

Senator SARBANES. Very good. Very helpful testimony. We appreciate this extended statement.

Cushing.

STATEMENT OF CUSHING N. DOLBEARE, PRESIDENT, NATIONAL LOW-INCOME HOUSING COALITION, WASHINGTON, DC

Ms. DOLBEARE. Thank you very much, Mr. Chairman. It's a pleasure to be here.

It was 42 years ago, at just about this time of year, that I accepted an offer of a job to be assistant director of the Citizens Planning and Housing Association in Baltimore. I thought I'd take that job and do it for a couple of years because it would give me some experience, and then I could get out of housing and do something more interesting.

So here I am. I'm the founder of the National Low-Income Housing Coalition, for the record, and I'm being recycled as interim president while we search for a permanent successor to Barry Zigas, who succeeded me in 1984.

I want to comment broadly on the range of housing needs, not because I'm under the illusion that this authorization bill or this administration of HUD or this Congress can adequately deal with

those needs under the immediate constraints of the budget resolution and the budget process, but because I think it's urgent that, as you act on what you can act on, you also present the true dimensions of the problem—not just the reality of the budget constraints, but also the reality of what we need to do if we are, in fact, going to achieve the goal of a decent home and a suitable living environment for every American family.

As you know, the National Low-Income Housing Coalition has pressed very hard for targeting of Federal funding for low-income housing on people with the greatest needs. We've done that not because we don't recognize other needs, but because we are acutely aware of the extent of the needs of people at the very bottom of the income scale.

HUD recently released tabulations of the census for preparing CHAS's. Twenty-three percent of all renter households in this country have incomes below 30 percent of median. Another 16 percent have incomes below 50 percent of median.

When people talk about "undue" targeting of funds to very-low-income renter households, they're talking about 39 percent of all the renter households in this country as that target group.

We now have 5 million subsidized housing units in this country. We also have more than 5 million very-low-income, unsubsidized renter households with worst-case housing needs. They're homeless. They're paying more than 50 percent of their income for housing. Or they're living in severely inadequate housing.

Just to deal with the most urgent part of the housing problem, we need to double the number of households that are receiving housing assistance of one sort or another, and the only programs that have been able to provide those households with housing assistance have had a substantial component of Federal funding.

For every household with a worst-case housing need, there are four other households in this country—this is 1990 census data for the CHAS tabulations—with significant housing problems that have been reported by the 1990 census.

That's 50 million people, roughly. Twenty-four million households have significant housing problems in this country. They're paying more than 30 percent of their income for housing. They're overcrowded. They're living in housing which has substantial inadequacies or some combination of two or three of those situations. That's 50 million people. That's more people than lack health insurance in this country.

If we're going to make a meaningful impact on dealing with our housing problems, we have to confront the dimensions of these problems.

Yet, between 1980 and 1993, measured in constant 1994 dollars, HUD's budget was cut by 57 percent. And now the Department is being held almost level. We have, for the first time, really, since Robert Weaver and his team came to HUD when the Department was founded in 1965, an administration in HUD where the Secretary and the Assistant Secretaries hit the ground running because they know their jobs and have a conception of what needs to be done.

We are not providing the Department with the resources it needs to make significant progress. The critical issue that we have with

this bill is that HUD has been forced, in order to make room for moving a little bit toward its own priorities, to cut back on existing programs where the needs are very real and to make do with a series of patches.

Now, I'd like to turn to some of the specific recommendations in my prepared testimony. I want to mention, before I do that, that outlined in my written statement is a proposal for the establishment of a Federal housing trust fund. The statement points out, if you count the benefits of tax expenditures, as well as direct subsidies, that for every dollar that goes to providing housing assistance for people in the bottom fifth of the income distribution, \$3 goes to people in the top fifth of the income distribution, primarily through homeowner deductions.

Our proposal is not to repeal any of those homeowner deductions, but to constrain the deductions that are taken by people at the top of the income distribution in order to provide the necessary funding, through a Federal housing trust fund, to provide a far greater scale of assistance to people who need it most.

Fifty-five percent of the low-income families in this country, families with incomes below 80 percent of median, owners and renters, 55 percent of them have some kind of housing problem. That is the situation which we need to address.

Our first recommendation, with regard to the HUD budget and the authorizations, is to support or increase the authorizations requested by HUD for its new initiatives that are aimed at serving people with very low incomes, and particularly to support the increase in rental assistance.

The HOME program has achieved a high degree of targeting, primarily because State and local governments have been able to couple rental assistance with the HOME money in order to achieve that degree of targeting. And, if the rental assistance is not there—and the HUD budget request is for 20 percent of the number of units that HUD funded back in 1977, which was really the last budget of the Ford Administration—if the rental assistance is not there, the HOME program will not be able to continue as it is now, addressing the most urgent needs in the States and local areas.

We think it is equally important to restore the cuts in low-income housing preservation, in public housing, and to restore the level of funding or increase the level of funding for the HOME program and housing for the elderly.

We urge the Committee to scrutinize the "reforms" which have been aimed at decreasing spending which, we think, will have a serious impact on the programs themselves.

Capping the LIHPRHA funding at the fair market rent, for example, will remove from the inventory just those projects that are most important to preserve, if you care about economic mix, particularly in the inner cities. Lowering the fair market rents to the 40th percentile of rents and allowing local PHA's to set their own rent levels for the consolidated voucher program will increase the pressure not to provide adequate funding to enable people to move to opportunity.

We have a series of concerns about the consolidated CHAS/HOME/CDBG plan which are not addressed in this legislation. We urge this Committee to scrutinize the proposals which HUD is de-

veloping. The versions that we have seen fall far short, in our view, of the requirements of the legislation. And while HUD is attempting to take a long step forward, we fear that the impact of the consolidated plan, as it's now proposed, will be to take several unfortunate steps backward.

We strongly support the thrust of the amendments on fair housing. I'd like also to point out, however, that we only have fair housing if the alternative choices that are presented to people are the choice between living in a viable inner-city urban community or moving to a different area. A choice to move to a different area instead of staying in an urban community that does not provide the quality of life that everyone wants is no real housing choice at all.

And, finally, my statement mentions a number of missed opportunities in connection with the addressing of lead paint hazards.

Housing with lead paint is the most serious housing quality problem in this country, particularly for families with young children who are vulnerable to lead poisoning. HUD has reduced the proposed authorization level for lead initiatives. That's part of the problem. But no HUD special program can adequately deal with the 57 million units that present hazards, with the 4 million units that present imminent hazards, or with the environment that 2 million lead-poisoned children now live in.

It's critical that what is done through specific lead paint removal programs be coupled with what's done with the planning process through the CHAS, with home funding, with linking lead paint abatement, with rehabilitation, and the consolidation of the certificate and voucher programs, and the efforts toward mobility. It's important that those efforts be particularly focused on informing families with young children, who have vouchers or certificates, of the importance of finding lead-free housing.

With that, I will express my appreciation for this opportunity to present our views and also ask for permission to expand on a number of specifics after we've had further opportunity to study the legislation.

Senator SARBANES. Certainly. We would appreciate further comments from all the members of the panel.

Ms. Beddor.

STATEMENT OF SANDY BEDDOR, MSW, DIRECTOR, COMPREHENSIVE HOUSING AND SERVICES, FAMILY TREE, INC., ON BEHALF OF THE NATIONAL ALLIANCE TO END HOMELESSNESS, WHEAT RIDGE, CO

Ms. BEDDOR. Mr. Chairman, my name is Sandy Beddor and I am the director of Family Tree's transitional housing program in Wheat Ridge, CO.

Even though we don't have an airport that's open yet, our Nuggets did win last night. So I was thrilled to leave Colorado so that they could win.

It is an honor and a privilege to be here to testify on this important legislation. I am testifying on behalf of the National Alliance To End Homelessness and Family Tree, which has been an active member of the alliance.

Family Tree is a not-for-profit community organization and for over 17 years, we have been providing shelter and supportive serv-

ices to battered women and their children, adolescents in crisis, and runaway and homeless youth. We also provide transitional and permanent housing to homeless families and individuals trying to achieve self-sufficiency.

We have been very fortunate to be recipients of numerous HUD McKinney awards from supportive housing to SAFAH, emergency shelter grant, and we also receive FEMA funds.

The National Alliance To End Homelessness is a national membership organization with 1,750 nonprofit members in every State of the Union. These organizations, like Family Tree, are on the front lines in the battle to end homelessness.

We don't work with these large numbers of the 5 million in housing units. We're really more of a local entity, just trying to do our own part in our little part of the world. And so, I'm here testifying today on how HUD McKinney programs affect homeless families in our corner of the world and how these programs affect our organization in administering the dollars.

I understand that one of the issues before you is to determine whether or not to retain the current categorical problems, as it is to allow HUD to organize these programs through their consolidation plan.

We believe that whichever direction you decide upon, there are going to be trade-offs and there are conflicting needs. These conflicting needs will include local control versus Federal leadership, experienced groups versus new groups, emergency assistance versus permanent housing, and spending HUD resources on housing versus services. And, of course, rural versus urban needs.

We are excited about Secretary Cisneros' and Andrew Cuomo's energy and leadership on these issues and it is with great enthusiasm that we are being asked, pretty much for the first time, our opinions on how better to deliver these limited resources.

We are hopeful that the challenges ahead can be successfully addressed with HUD's new willingness to become partners with service and housing providers across the country.

I'd like to tell you now about a new friend of mine. We recently met at a drug and alcohol task force meeting addressing the unique needs of homeless women with children attempting to seek treatment in our area. Bernadine was asked to be on the task force because she has been in treatment for over a year and represented the type of woman with children the task force was interested in helping.

She is a 35-year-old single mother of three children, ages 17, 7, and 4. She tells those who will listen that she is addicted to alcohol and crack cocaine. Her children were removed from her home after her caring brother reported her drug abuse problem and probably saved her life. Eventually, her parental rights were terminated and the children were placed with family members.

Prior to receiving treatment, Bernadine spent about 5 months homeless. Now Bernadine is looking forward to graduating from an intensive, long-term treatment facility. She is starting to worry about what will happen next. You see, she has no place to live. She is also concerned about the support she will need so that she can continue, while she's adjusting to her new life, on her own.

Her goals are not lofty by any means. She wants to help in re-establishing her parental rights. Her children and family members are supportive of these actions. She wants to find stable housing that she can afford. She hopes to enroll in a job-training program to develop better skills so she can try to find a job with living wages. And she hopes to surround herself with caring, healthy friends and family.

Obviously, we must design systems of care that will meet the needs of Bernadine and thousands of families like hers in all parts of the country.

HUD has proposed that this system of care that will accomplish this is their Homeless Assistance Grant Program. In the past, Alliance members and Family Tree have been opposed to the consolidation of the McKinney programs. Most local governments have not been particularly friends of people like Bernadine. The issue of homelessness is highly politicized at the local level. Most of the time, it is the nonprofits like Family Tree that take on the most unpopular issues in our community, such as homelessness and domestic violence.

It is the nonprofits that develop and implement grassroot solutions, usually with very little capital. And while the solutions to homelessness are indeed local, they do not necessarily lie with local government.

On the other hand, HUD has correctly identified the problems that plague the current system of categorical grants. The main one is that they make it virtually impossible for local areas to plan or take a comprehensive approach to the problem, and this directly affects families like Bernadine's.

The alliance has been working with HUD on its proposal and if you decide to take the formula grant approach, we think that HUD's proposal is a good starting point. We think that nonprofits will be attracted to many elements of the plan, especially those that require local planning, that mandate a continuum of care, and that provide the consistency of funding.

We certainly appreciate the amount of recognition paid to the nonprofit sector in this proposed legislation and I know that all of us are grateful for the level of funding requested by HUD because we know the staggering number of people that receive no assistance.

We have two major reservations to the HUD proposal. The first is that we are afraid that the money will be spread too thin to deliver both the prevention, emergency transitional assistance that is needed, and to provide any permanent housing.

The second is that the implementation of this approach may be a little too fast. It would be helpful for us to have a little more time to plan the transition with our community leaders.

For example, one of the wrinkles that we would like to work out is that we, as nonprofits, look at funds like the Community Development Block Grant dollars to provide funding for community-wide projects that meet the needs of low-income families:

It has been our recent experience, however, that instead of distributing the dollars through existing community nonprofits, cities are beginning to use these dollars to build their own infrastructures and have little motivation to do otherwise. The concept of

local planning boards, as proposed by HUD, would be helpful in addressing this issue.

I think that there are solutions to these problems and in the case of spreading the money too thin, you could hold out the SRO program and possibly the Shelter Plus Care, with some minor changes, to do permanent housing. Continue to run them as permanent grants. You would then have a block grant for prevention, emergency, and transitional housing.

Most of the permanent housing could come from the permanent housing programs as designed, such as CDBG, HOME, Section 8, et cetera, and at the SRO and Shelter Plus Care programs.

On the issue of timing, we might want to look at going a little bit slower. HUD has made a very ambitious proposal and it will require many changes. Planning will have to take place and our relationship with the HUD field office will have to change.

We will have to develop new ways of working together. These are all good things, but they take time and because of the emergency nature of the program, we cannot afford any gaps in services.

Maybe we could begin the planning in fiscal year 1995, but not implement the formula distribution until fiscal year 1996, as we work out some of the different kinks and to straighten some of those concerns out.

Mr. Chairman, whether or not you implement the changes proposed by HUD, we need to make some changes in the current programs to make them easier to use.

The Alliance convened some focus groups on this issue and our recommendations on changes to the current programs are attached to my written testimony. I have also attached some possible funding levels for different program options. I hope that these can be entered into the record, along with my full statement.

Thank you very much for allowing me to testify before you today and we are very grateful to your commitment to finding solutions that work.

Senator SARBANES. Well, thank you very much.

I'd like to put this question to all of the panelists. There are a number of new initiatives that HUD has proposed and we've heard them commented on this morning. Generally, do you see those new initiatives as broadening the vision and making it comprehensive? In other words, is HUD putting in pieces that ought to be there that need to be addressed? Or, do you tend to perceive them as diverting attention and resources from the main game to side games? Do you have any overall reaction in that regard?

Mr. HARVEY. I'd see them—first of all, I'd say I'd take them in the size to the overall budget that's proposed. If you add them up, you're talking, I guess, about LIFT, Community Viability, and then there's several others.

Those two, Community Viability is \$130 million and LIFT is \$200 million, and I think what they're trying in some cases, and Community Viability I know better than LIFT, is a means of outreach into the private sector and into the nonprofit sector and to fill gaps that they don't fill that are there, and to do it really on more of a demonstration basis because that's not a huge amount of money for the country. But I think there's important lessons.

We, as you know, participated last year, The Enterprise Foundation, in NCDI, which leveraged \$20 million with another \$60 million private resources, all of which went into the capacity-building of nonprofits in 23 different cities. And that's further leveraged by getting the public sector, the private businesses, lenders, and others all to work together on some kind of an umbrella partnership.

So I think HUD seed money in that was a very important and useful program that's not out of the main track at all. It only covers 23 cities. I'm sure there are other things they would like to try with others in different areas to see what works out there, at the same time they're running their mainstream programs, which are really oriented toward functional areas rather than experimental areas.

Ms. DOLBEARE. I guess my view would be quite similar. This is a personal view. The coalition hasn't really grappled with this.

I see their efforts as very much trying to deal with gaps in the programs or finding ways to do things that the programs aren't currently doing. And, as Bart mentioned, they may have a demonstration function because if you have some extra money, you can get people to take some chances that they can't take given the pressures that are on the mainstream programs. That's part of why I think it's so urgent to try to find more resources for the Department and to make the point that HUD was the only Department—measured in current dollars, HUD was the only Federal Department to have a budget cut, to have less budget authority in 1990 than it had in 1980. It was cut by about 30 percent.

I think it's important to try to make the point that HUD has already been cut, and it shouldn't be subject to the same kinds of pressures as other Departments. In my mind, it's a tragedy to have an Administration with as many ideas and as much dedication and as much commitment as this Administration has and basically say, look, you can't do anything. You can't do any of your new ideas unless you cut some of your old programs. And the programs that they're cutting need to be improved. They don't need to be cut.

So, I'd like to see some way found to give them the elbow room. Heaven knows they're not asking for a great deal, because I think it's important to try to find new ways of doing things, to build on the partnerships we now have in housing, and to extend them into some of these neighborhood-based economic development areas.

Mr. HARVEY. Could I just add one other thing? I think HUD, of any of the other Departments, is the most formula-driven right now. If you really go to HUD and you say, gee, there's a terrific idea of working with utility companies across the country, they'll say, it doesn't fit any of the formula programs that we have that are going out. There's nothing that we can do to work with you on that. It's very formula-driven. If you look at what Secretary Cisneros has to work with for whatever his ideas are, it's a very small amount of money.

Ms. BEDDOR. From my perspective, we believe that some of the things that they're trying to do right now is really a good first step, in that the way to address homeless issues is never one-tiered. And so, the multiple tiers and multiple approaches of being able to work with homelessness and not to be tied to one specific design is real important.

I think that's what they might be trying to get at right now. We would welcome that as a starting point. But we are very concerned that the amount of dollars coming in will thwart those good ideas because it won't be able to fully fund the continuum of care approach.

Senator **SARBANES**. Of course, we have a problem with getting the additional monies.

Cushing, I'd like to ask you, what is your reaction to changing how the public housing rent is calculated so that people with better incomes can continue to stay in public housing? How does that comport with the policy you've enunciated of targeting resources to the lowest income people?

Ms. **DOLBEARE**. I think it's quite consistent. Our concern is not that we don't want to see people improve themselves economically once they're in subsidized housing. We've never been in favor of booting them out when and if they did. Our concern is that when there is a vacancy, you give that vacancy to somebody with a compelling, urgent housing need, and those tend to be the very lowest income people.

Personally, I think you might be able to apply the Federal preferences without also requiring very low income. There are very few households with incomes above 50 percent of median that would qualify for Federal preferences.

On the question of the change in the calculation of rents, I think it's terribly important because when you really look at the figures—and I had been against the idea, as a generality, until I looked at some of these figures—there are very heavy disincentives to working.

At a job that you're likely to be able to get if you haven't been working previously, you're going to end up with less cash income than you had before you got the job. That's more than 100 percent tax rate on some public housing residents.

Now, the rent is only part of it, but rent is the part of it that can be dealt with in this legislation. So we favor these rent reforms. We're concerned that they only apply to public housing. They ought to apply, in our view, to all assisted housing, not just to public housing. Public housing is the focus because that tends to have the greatest concentrations of low-income people in any particular development. But it's still important, I think, to apply those changes across the board to other housing programs as well.

Senator **SARBANES**. I'd like to ask this question. Maybe no one has an answer. We talk about 25 percent of income for rent, 30 percent, 40 percent. What's the rationale behind it? What is it that determines what constitutes an acceptable percentage?

Ms. **DOLBEARE**. It's sort of a fashion, I think, when you get right down to it. Forty-two years ago, when I got into housing, it was 20 percent. Then that got to be looking a little more expensive and rents were rising outside, and so it was moved up to 25 percent. Now it's 30 percent.

It's basically a rule of thumb. I've looked at it and I think the way it's calculated now, it's not a bad rule of thumb. The fact is, of course, that a millionaire could afford to pay 90 percent of income for housing and still have \$100,000 left over for all the other needs.

We've long felt that the most logical and accurate way to calculate what people could afford for housing is something we've referred to as the market-basket approach. And I can submit some numbers for the record, if you're interested.

Basically, we calculate what a household would need for the other essentials, based on the old Bureau of Labor Statistics city worker's minimum family budget, adjusted by changes in the Consumer Price Index, because that hasn't been published for a good many years now.

If you use that, something like 11 million households—households, not all renters—can't afford anything for housing because their incomes are below what you need for your nonhousing essentials.

Then, fairly soon, you get to the point where people can afford more than 30 percent of income for housing. But, as a practical matter, as I've looked at it, I think it makes more sense, because it's simpler to apply a percentage of income, and to use something which would be comparable to the income tax deduction.

The problem with 30 percent is that, for a larger family, the deductions in calculating income for assisted households are not sufficient to make up for their increased nonhousing needs.

A single person can much more readily afford 40 or 50 percent of income for housing than a family of four or five because they don't have so many mouths to feed. But I think that the 30 percent rule is simple. You can calculate it fairly easily and you could make the necessary adjustments to it by relating it to overall income limits and to providing more adequate deductions like the standard deduction for dependents in income tax.

Mr. HARVEY. Let me briefly comment on that, too, because there is a very important fact behind that number, which is, whatever that agreed-upon number is, Senator, that is what is used by all the different agencies to look and to qualify buyers. In essence, if that number is too high, if it ends up that it's 33 percent of an applicant's income that would go for this mortgage, they don't get it.

There's been a tendency to move that number up, even though, as Cushing said, there's still that great need for some discretionary income for family life and other life, so that you don't default on your house down the road, but you can live some kind of reasonably decent life and your kids have some chance. But it's been moved up just as the need has increased and people have said, we will do whatever it takes to get this house, and therefore, we're willing to spend even more of our disposable income for basic shelter needs. But there's a trade-off there between the lenders and the whole affordable housing business as to what that number is.

Ms. DOLBEARE. Just as one additional point, if I may, because rural housing is part of this Committee's area of concern. There are some proposed changes in the Farmers HOME program, the 502 program, which would really force the very-low-income borrowers to pay 40 percent or more of their incomes for housing under the proposed new rules. I would urge the Committee to look at that as you're considering your proposal.

Senator SARBANES. Do you all have a view on this idea of borrowing future modernization grants in order to do the public housing now?

Ms. DOLBEARE. Well, if you don't have the direct appropriations to do the public housing now, it's probably better to try to find some other ways of doing it than not to do it at all. But, clearly, our view would be that it would be better to provide the funding that's needed in the first place.

Mr. HARVEY. This is also the section 108 loan on CDBG, et cetera. There's a danger. Like any danger, there's a great benefit that you can undertake a larger project and put up the money in advance and get some kind of a guarantee, but you've obligated your city or jurisdiction for the future for those funds.

And, in essence, whoever is in power at that point in time may think it's very wise to obligate out, for a whole number of years, and use up the funds that are coming in for a future mayor or a future head of that jurisdiction.

There is a danger and a benefit in it, and it's almost like anything else. I think in a number of projects, without doing it, you certainly couldn't undertake large projects right now. But, it's whose wisdom.

Senator SARBANES. On the homelessness issue, I take it that you think this consolidation and grouping that HUD's proposing to do, generally speaking, would work effectively. Is that right?

Ms. BEDDOR. As it's written now, we see that it would work fairly effectively. I think that really, truly it needs time, though, to bring our local communities on board and to have buy-in for it and to work out some of the concerns.

One is funding. Another is the whole idea around—we need to get some more answers around, is this a consolidation of the programs and the administration of the programs so that you're streamlining it, or will all the programs have to run the way they're designed now? And, what are some of the statutory impediments? But we like the idea of a multiple phase approach in bringing in many systems.

Senator SARBANES. Has HUD been in close communication with the people who work with the homeless in the course of formulating this proposal?

Ms. BEDDOR. In Colorado, we're working right now on a Denver initiative, homeless initiative. Our regional representative is Tony Hernandez. He is new in his job and has been spending a significant amount of his time and energy in pulling together the Denver metro area and being able to develop a continuum of care. And that's in the process right now.

I must add that, with his leadership and with his energy, that a lot of people are very excited about this. But, again, cautionary also, because if we set something up that we can't pay for, then everything will unravel very quickly.

Senator SARBANES. Well, the one place where they're talking about markedly increasing the budget commitment is with respect to the homeless programs. It's almost a doubling, as I recall, though I don't have the table right in front of me.

Ms. DOLBEARE. Senator, if I could comment also.

The national groups, the National Low-Income Housing Coalition and the other groups more directly concerned with homelessness, have been invited so far, I believe, to three meetings with Andrew

Cuomo or with key people developing this proposal. There's another one this afternoon.

We have been invited in. We have been given an opportunity to comment on it. We're still concerned that our comments are not all—to some extent, have been reflected in the legislation. I think there's a way to go on that.

Senator SARBANES. I want to thank you all very much. It's been a very helpful panel and we certainly appreciate the detailed statements that were prepared.

If you could continue to provide us with your analysis, as we try to work through this in the near future, it would be appreciated. We're very anxious to keep this process moving. I'm a little concerned. I don't want HUD's focus to shift to where it's simply saying, well, we have to wait for legislation in order to get on and do our job.

Actually, I think the resources problem is a bigger problem than the statutory framework problem. In fact, I intervened, personally, with the President back toward the end of the year when the cuts in the budget were apparently going to be much larger than what finally happened.

But it's like that technical training money you were talking about. The systems may need to be reorganized and everything, but if you bring everything to a screeching halt, then nothing is happening out on the street. And unless what's happening out on the street is so bad that nothing additional ought to come out—which was clearly not the case with the technical assistance money—then they ought to move it ahead.

We've got to get things done. We've tried to bring in the private sector and the State and local governments. But if they get any sense that the momentum is lagging or that the attention is shifting, it seems to me that their efforts are going to diminish.

We're obviously very anxious for that not to happen because this problem—as Jim Rouse recognized when he headed up the Affordable Housing Task Force—can't really be dealt with if you don't get commitments from everywhere. You really have to maximize what comes from all different sources.

Thank you all very much. You've been a very helpful panel.

Mr. HARVEY. Thank you.

Senator SARBANES. The hearing stands adjourned.

[Whereupon, at 12:20 p.m., the hearing was adjourned.]

[Prepared statements, response to written questions, and additional material supplied for the record follow:]

OPENING STATEMENT OF SENATOR DONALD W. RIEGLE, JR.

This morning the Senate Committee on Banking, Housing, and Urban Affairs will resume its consideration of S. 2049—the Housing Choice and Community Investment Act of 1994. Last week, U.S. Department of Housing and Urban Development Secretary Henry Cisneros presented this package before the Committee. Today's discussion will focus on identifying the needs in our Nation's cities and examining the extent to which the Administration's legislative package addresses those needs.

I am pleased that President Clinton and Secretary Cisneros have made such a strong and enthusiastic commitment to our cities after so many years of neglect. The Administration has proposed an ambitious and comprehensive agenda to revitalize communities and create real opportunity for residents. However, lack of investment in our cities and their residents over many years has left us with very limited resources. Thus, one task the Congress must undertake is to select the best and most strategic initiatives in which to target our resources.

The Secretary has established five Departmental priorities—reducing homelessness, improving public housing, expanding affordable housing, enforcing fair housing, and empowering communities—and designed S. 2049 to accomplish those goals. The housing reauthorization proposal overhauls many existing programs and creates several new initiatives. It proposes to consolidate several existing homeless programs into a single, simplified program. S. 2049 seeks to improve our public housing stock—through a direct loan program to modernize and replace units, rent reforms, merger of existing programs for severely distressed housing, and creation of an anti-crime program. The Administration also proposes to expand the supply of affordable housing through home ownership. The bill will also give HUD new tools to enforce fair housing. Finally, the Administration's proposal will create jobs, increase availability of goods and services, and promote revitalization through economic development.

The witnesses we will hear from today possess significant expertise in the areas that the Secretary has established as his priorities. I believe that any new initiatives this Committee authorizes should, to the maximum extent possible, leverage private resources. The best way to ensure that a community is committed to the long term well-being of a distressed neighborhood and its residents is to secure local investment from both public and private sources.

Finally, I am also interested in how to ensure that Federal housing and community development initiatives remain flexible so they can be adapted to meet local circumstances—as well as how to enable communities to receive and spend their money quickly and effectively rather than having funds sit unused in a pipeline of red tape.

I look forward to the testimony of our witnesses.

PREPARED STATEMENT OF ALBERT C. EISENBERG

VICE CHAIRMAN, ARLINGTON, VIRGINIA COUNTY BOARD

ON BEHALF OF THE

NATIONAL LEAGUE OF CITIES, THE U.S. CONFERENCE OF MAYORS,
AND THE NATIONAL ASSOCIATION OF COUNTIES

Good morning, Mr. Chairman. My name is Albert Eisenberg. I am Vice Chairman of the Arlington, Virginia County Board. I am here this morning to testify on behalf of the National League of Cities, the U.S. Conference of Mayors, and the National Association of Counties on the "Housing Choice and Community Development Act of 1994."

I would first of all like to thank you and Members of the Subcommittee for the Multifamily Housing Property Disposition Reform Act which made a number of changes in the HOME Investment Partnerships program. These changes will help communities around the country to more effectively implement their HOME projects. I would also like to thank HUD Secretary Henry Cisneros and the Administration for the bill on which I will comment this morning. In general, the bill has a number of provisions that will make for a better housed Nation with safe and economically viable neighborhoods.

There are also a number of new initiatives in this housing bill. There is, of course, the need for new initiatives. But there also is the need to continue programs that have stood the test of time. Generally, we believe that most of the existing housing and community development programs have been effective and will continue to be

so. The most serious problem that most of these programs have had is that they have not been adequately funded over the years.

Therefore, Mr. Chairman, with respect to the new initiatives, we would say, in general, that while they are worthy of consideration, they should not be put ahead of, or more specifically at the expense of, existing housing and community development programs which local governments believe are now effective.

Of course, the program that we believe is the most effective of the Federal-local Government partnership is the Community Development Block Grant (CDBG) program. The program works well, and since the demise of many grant programs to local governments over the last several years, CDBG has been under tremendous pressure to do more for everyone. Hardly a legislative session goes by without someone calling for a new eligible activity for the program or a new way of using CDBG funds, or more accurately another reason to withhold CDBG funds, in order to get some desired response from local governments.

Each one of these types of CDBG programmatic changes are recommended in the "Housing Choice and Community Development Act of 1994." For example, the bill would make fair housing an eligible activity under the CDBG program. While this change in and of itself is not a problem, it could become so when considered against the background that HUD believes that local governments have not done enough to further fair housing. (The agency holds this view but has not given specific examples of what local governments have done or have not done with respect to fair housing). Our concern is that with fair housing as an eligible activity, HUD may use its authority to withhold local CDBG funds based upon the agency's acceptance of a jurisdiction's fair housing plan. To be sure, this conditioning of CDBG funds is not clear in the legislation, but we believe it does leave open these possibilities.

In addition, the bill's provision which calls for the resources of local governments to be used as collateral for half of the public housing modernization funds for new construction is a very real problem for us. The possibility that CDBG funds may be used to serve as collateral for the housing modernization funds is definitely a poor policy decision. This, in effect, will result in a net decrease in CDBG funds which are already strained in localities.

The question must be asked: Where would the local resources come from? Many jurisdictions continue to struggle with the match requirements of already existing housing programs. Changing the public housing modernization program by throwing some of the financial responsibility to local governments is clearly not the answer.

Moreover, in the Multifamily Housing Property Disposition Reform Act, the Section 108 Loan Guarantee program is expanded. This program also uses CDBG funds as collateral. How much additional stress do we want to put on CDBG by adding yet another program such as the public housing modernization program? We believe that using CDBG funds as collateral for modernization is just a bad idea.

Mr. Chairman, we are also concerned about the new initiative which was originally to be funded from the CDBG program, the Leveraged Investments for Tomorrow (LIFT) program. Since the release of the budget, HUD has said that it will not take the funds for LIFT out of CDBG, and that a budget revision doing so will soon be made. While we certainly do not want funds earmarked out of the CDBG program, we are still concerned that an initiative such as LIFT, while the rationale for it might be good, competes with existing housing and community development which are already underfunded.

One program that is underfunded in the housing bill is HOME. At its inception, most supporters felt that HOME should be funded at \$2 to \$3 billion annually. This bill, as well as the President's Budget Request, would fund HOME at \$1 billion in fiscal year 1995, a \$275 million cut from last year's funding of \$1.275 billion. We are opposed to this cut and disappointed in what appears to be lukewarm support for the program.

Mr. Chairman, HOME is an effective affordable housing program. Although the program was enacted in 1990, because of many legislative and administrative restrictions which have been largely corrected, HOME really did not begin until January, 1993.

HUD statistics now show an impressive use of HOME funds. Most of the fiscal year 1992 and 1993 funds are being used for new construction and rehabilitation. And the funds are also being targeted deeper than the requirements of the law both in rental and ownership housing. Another significant achievement is the HUD's March statistics which show a 68.9 percent of fiscal year 1992 and a 12.3 percent of fiscal year 1993 commitment of HOME funds.

The March commitment figures do not take into account the change in definition of commitment which was published on April 19. Now, instead of commitment being counted when HOME funds are entered in HUD's Cash/Management Information system, commitment will now occur when there is a legally binding contract be-

tween a participating jurisdiction and a subrecipient. This will mean that level of commitment will be larger than what the March data show.

We are disappointed however, Mr. Chairman, to hear that HUD is not using the change in the commitment definition to tabulate the activity of States and localities in its formal data reports, of the type which I draw from for this testimony. In effect, HUD is only using the new definition of commitment when it would result in localities losing their HOME funds; although this is good, the agency is not reporting what is actually happening with respect to the new definition. By not reporting the data based on the new definition, Congress, which must judge the effectiveness of the program, will not get an accurate picture of localities' use of HOME.

In regard to the consolidation of the Stewart B. McKinney Homeless programs into a single grant program, we think the concept is sound. We would like to further consider such provisions as the representation of the planning board which at least 51 percent of its membership nominated by entities other than a governmental jurisdiction and that 51 percent of the funds must be provided to nonprofits.

And finally, Mr. Chairman, we are opposed to the provisions of the bill which would allow public housing authorities to preempt State and local law, as well as Federal laws, to obtain information on the criminal records of applicants for, and residents of, public housing, for the purposes of applicant screening, lease enforcement, and eviction. While the situation which these provisions attempt to address is critical, we believe that there should not be a different standard for public housing residents than for other Americans in our democratic Nation.

Mr. Chairman, we look forward to working with you and the Subcommittee on this bill over the next month. We will keep you informed as we work out additional policy positions on various aspects of the bill. Thank you.

PREPARED STATEMENT OF RICHARD G. GROSE

EXECUTIVE DIRECTOR, MISSOURI HOUSING DEVELOPMENT COMMISSION

ON BEHALF OF THE

NATIONAL COUNCIL OF STATE HOUSING AGENCIES

Mr. Chairman, Senator Bond, and Members of the Subcommittee, thank you for the opportunity to testify this morning on the Housing Choice and Community Investment Act of 1994, HUD's proposed housing authorization bill.

My name is Richard G. Grose. I am Executive Director of the Missouri Housing Development Commission and Vice President of the National Council of State Housing Agencies (NCSHA).

NCSHA is a national, nonprofit organization created in 1970 to assist its members in advancing the interests of lower-income people through the financing, development, and preservation of affordable housing. NCSHA's members are Housing Finance Agencies (HFA's) with Statewide authority. NCSHA's members operate in every State, the District of Columbia, Puerto Rico, and the Virgin Islands.

At the center of HFA activity are the Mortgage Revenue Bond (MRB), Low Income Housing Tax Credit (Tax Credit), and HOME Investment Partnerships (HOME) programs. NCSHA's members also administer numerous other State and Federal housing assistance programs.

NCSHA commends Secretary Cisneros and his staff for their dedication to providing affordable housing for families in need. We appreciate their commitment to reducing homelessness, expanding affordable and fair housing opportunities, and empowering communities. There is a new "can-do" spirit at HUD, and we are grateful for the opportunity to work closely with the Department to improve several of its core programs and implement new ones.

We support some of HUD's proposals to improve and revitalize existing programs. However, we are very concerned about the number of new initiatives HUD has proposed. It will not be possible to pay for these new programs and still fund existing programs at even their current levels, let alone their authorized levels. The limited resources available for housing must not be diverted from the proven delivery system to untried initiatives, however laudable in intent.

In addition to diverting funding, new programs require substantial staff time to develop and administer. HUD is already short-staffed in some areas of its operations and is scheduled to lose another 1,700 full-time equivalents over the next five years. We caution you to weigh carefully both the staff and funding resources available to HUD as you decide whether to approve new programs.

Because we have had less than one week to review HUD's bill, many of our comments are of a preliminary nature. We will communicate more detailed comments to you as soon as possible.

Maintain the Authorization Level for HOME

We cannot stress enough how deeply disappointed we are that the Department has proposed a 50 percent cut in the authorization level for the HOME program for fiscal year 1995 and fiscal year 1996. States have invested heavily in HOME and believe it is the most effective program available to address many of the housing needs Secretary Cisneros has so eloquently identified. It provides both the permanent housing and some of the transitional housing needed to establish the continuum of care HUD promotes. To cut it now would be tragic. We urge the Committee to reject HUD's proposal and continue to authorize this outstanding program at no less than the current \$2.2 billion level.

Unlike categorical programs, HOME can and is being used for a wide range of activities to produce housing for every conceivable low-income population. HOME is funding housing for the elderly, the homeless, people with disabilities, battered women with children, and families with extremely low incomes. HOME is making homeowners out of public housing residents and creating independent living opportunities for people across the spectrum of special needs.

We estimate that the \$1.5 billion in fiscal year 1992 HOME funds will assist over 100,000 families. The vast majority of these families have extremely low or very low incomes. As of March 31, over 88 percent of assisted families in HOME rental units and 62 percent of HOME-assisted homeowners had incomes of 50 percent of median income or less. Over 56 percent of assisted renters had incomes of 30 percent of median income or less. Nearly 98 percent of renters and 77 percent of homeowners had incomes of 60 percent of median income or less.

Given HOME's success, we are puzzled and deeply troubled that HUD has not placed higher priority on funding it. As you know, HUD justifies its low funding request by citing what it describes as a low commitment rate for fiscal year 1992 and fiscal year 1993 HOME funds. Yet, as Chairman Sarbanes reminded Secretary Cisneros last week, the commitment rate HUD quotes is based only on what has been entered in HUD's computer system. This is far below the actual commitment rate.

Virtually every State has fully awarded its fiscal year 1992 and begun awarding its fiscal year 1993 funds. Many States have fully awarded their fiscal year 1993 funds and are already accepting applications for fiscal year 1994. We expect that many States will be ready to award their fiscal year 1995 HOME funds as soon as they receive the funds from HUD next spring.

NCSHA Supports Additional HOME Provisions

NCSHA supports a limited number of further improvements to the HOME program, including HUD's request for authorization to guarantee loans based on future HOME allocations. We would like to work with the Committee to improve the usefulness of this proposal by such changes as expanding it to cover tax-exempt financing and by extending the repayment period to 30 years. We would like to stress, however, that in no way does this guarantee authority substitute for authorizing and funding HOME at the full \$2.2 billion level.

MAKE HOME RENTS MORE COMPATIBLE WITH OTHER FEDERAL PROGRAMS

Currently, HOME-assisted rental units must bear rents not greater than the lesser of Fair Market Rent (FMR) or rent that does not exceed 30 percent of 65 percent of median income adjusted by unit size. This has created difficulties in combining HOME with some other forms of Federal assistance, which allow rents to be set at higher levels, while regulating the tenant contribution so that the unit remains affordable to low-income families. The difference between the affordable level and the actual rent is typically made up by rental assistance.

This is primarily an issue under HOME when 30 percent of 65 percent of median income is less than the FMR. While projects funded under other Federal programs could set rents up to FMR (or even above), the HOME rents must be below the FMR. This reduces the project's cash flow, which could render the project infeasible from the start or threaten its long-term stability. Under the Tax Credit program, for example, the tenant contribution to rent is 30 percent of 60 percent of the median income, and the difference between this level and the FMR may be bridged with rental assistance. Under the McKinney SRO program, Section 8 assistance is provided at rents up to 120 percent of FMR.

We believe this administrative problem can be overcome by regulating the tenant contribution rather than the rent level, as is done under the Tax Credit program and as is already authorized for the 20 percent of HOME rental units in each

project which must be targeted to families with incomes not more than 50 percent of median income. For example, the rent requirement might be amended such that individuals pay as a contribution toward rent not more than 30 percent of 60 percent of median income, adjusted for unit size consistent with the Tax Credit. This would make HOME more attractive as a resource to combine with programs like the Tax Credit and McKinney. It would also make it easier for project sponsors to structure HOME financing, since it would be one less set of rent rules to understand.

We also recommend that the HOME rents be revised to provide that a very-low-income tenant in a HOME-assisted unit continue to be considered "very-low-income" until the household income increases to 70 percent of median income (140 percent of 50 percent of median). Currently, when the tenant's income rises even slightly above 50 percent of median, the tenant is re-classified as low-income and must pay a rent based on 65 percent of the median. This can put a significant rent burden on the tenant. Further, local rent regulations in some jurisdictions prohibit the project owner from raising the rent.

This problem was recognized and resolved in the Tax Credit program by allowing a tenant's income to rise to 140 percent of the target level before the tenant is no longer considered "very-low-income." Adopting a comparable provision for HOME would help to insure long-term financial stability of projects, reduce the potential for large rent increases for low-income tenants, and make the HOME rent structure more consistent with the Tax Credit.

THE MATCH CONUNDRUM

Many jurisdictions continue to struggle with identifying HOME match, in part because of concerns about how to deal with HUD's interpretation of the provision which Congress approved in 1992 to clarify that State and local funds invested in housing which qualifies as affordable under HOME but is not HOME-assisted counts as match (HOME-eligible housing).

The HOME regulation requires that repayments of matching contributions from both HOME-assisted and HOME-eligible projects be made to the jurisdiction's HOME account to receive match credit. We believe this will undermine State and local programs by drawing off repayments, interest earned, and investments from the State program into the HOME account. The purpose of the matching requirement is to ensure that State and local jurisdictions commit their own funds toward affordable housing, not to build up the HOME account. State matching funds should be allowed to return to the State housing programs they were drawn from, just as Federal HOME funds return to the HOME program. As long as the funds are recycled for affordable housing, they should count as match even when provided as loans.

We believe that Congress intended that resources committed to State programs providing housing opportunities substantially equivalent to those under HOME should count as match. We do not believe Congress intended to force States to redesign their programs to conform to the HOME rules in minute detail. In some cases, for example, the definition of income under a State program may vary slightly from the HOME definition which HUD established by regulation. Under HUD's reading, the State must then calculate the income of every assisted family twice, an exercise which will waste enormous amounts of time only to determine that every or virtually every family qualifies under either definition. HUD should not disqualify State programs as match because of minor variations in definitions of income, rent, affordability, or recapture.

The interim rule on HOME-eligible match requires that jurisdictions put in place detailed, signed agreements with project sponsors that all relevant HOME requirements are met. This is an unnecessary administrative burden. Jurisdictions should be able to simply certify that their HOME-eligible match is in projects meeting the relevant requirements. Such self-certification is already accepted under other HOME provisions.

ADDITIONAL HOME AMENDMENTS

NCSHA has also endorsed the following amendments, which are supported by other State and local government organizations and some national nonprofits:

- Conform the HOME monitoring requirements to the standards NCSHA has advocated for the Tax Credit, under which jurisdictions would perform an annual desk review of tenant files complemented by an on-site review of each project at initial occupancy and every three years thereafter. Currently, jurisdictions must perform an on-site review of each rental project every year. This requirement is administratively burdensome and more frequent than we believe is necessary to ensure compliance.

- Expand eligible activities under HOME to explicitly authorize jurisdictions to use HOME funds to guarantee short-term loans financed with non-Federal resources.
- Authorize jurisdictions to borrow against their future HOME allocations to provide an up-front capital subsidy for multifamily projects. This option would also require Federal guarantee authority.
- Clarify that, as under the CDBG program, Davis Bacon rules do not apply when HOME funds are used for land acquisition only.

FHA Single-Family Proposals

NCSHA commends HUD for its efforts to revitalize the FHA single-family insurance programs. Increasing the single-family mortgage insurance limits, for example, will assist homebuyers in both high-cost areas, for which the limits now are too low, and in areas which do not qualify as "high cost" but for which the average area purchase price is higher than \$67,500. At first glance, HUD's proposal to replace the \$67,500 limit with the average area purchase price limit determined for the MRB program seems reasonable, but there may be cases where it is not sufficient. The Committee should be aware, however, that HUD is chronically late in updating the MRB limits. The last time these limits were published was in April, 1992. HUD must make it a priority to update these numbers annually.

NCSHA supports HUD's proposal to create a no-downpayment program for first-time homebuyers. However, we would urge the Committee to consider that the need for such a program extends well beyond narrowly defined revitalization areas. At a minimum, the definition of eligible areas should be expanded to include rural areas targeted for revitalization by a unit of Government. In addition, the insurance authority for the initiative should be available in any Federal, State, or local revitalization area. Fifty percent of the initiative should not be limited, as HUD proposes, to Federal and State-approved empowerment zones and enterprise communities.

We also support HUD's proposal to develop a risk-sharing program with State and local agencies to insure mortgages in high-cost areas for homes which are priced above the FHA mortgage limits. The median home price in certain markets, including much of California, is far above the maximum loan amount insurable under FHA, even with the increase HUD is proposing. As a result, FHA insurance is of minimal use in those areas. Making FHA insurance available through a risk-sharing program would make home ownership an option for a greater number of people in those areas who cannot afford to purchase with conventional financing.

We would like to work with the Committee to ensure that HFA's can participate effectively in this program. We are concerned, for example, that HUD is proposing that the HFA's underwriting standards be subject to HUD review. Under the multifamily risk-sharing program this Committee developed in 1992, HFA's which take on a high proportion of risk may utilize their own underwriting practices without HUD review.

We also recommend that loans made under this program be eligible for Ginnie Mae securitization. Otherwise, loan originators will be limited to selling the loans to Fannie Mae or Freddie Mac or participating in a loan pool, which carries the cost of pool insurance. This will discourage lenders from participating. We also recommend that the legislation make clear that if an HFA's participation in the program is canceled, the validity of any insurance in force at that time will not be affected.

In addition, we support HUD's request for authority to develop demonstration programs to test alternative mortgage instruments and new partnerships with such entities as HFA's and the Government-sponsored enterprises. HUD should have more flexibility than it currently does to explore ways of improving its programs.

Reorganization of McKinney Act Homeless Programs

NCSHA supports the general framework HUD has proposed for reorganizing and consolidating McKinney Act homeless programs. We agree that a more comprehensive, integrated approach to homelessness will be more effective than the current patchwork of programs.

We support the proposal to delegate administration of homeless programs to the State and local level. We believe, however, that States should receive a higher proportion of the funds than the 25 percent HUD has proposed. States have steadily expanded their role in addressing homelessness and should receive a level of resources that recognizes that role. Under the HOME program, States receive 40 percent of the funding. Even the existing formula homeless program, Emergency Shelter Grants, allocates 30 percent of funds to States, as does CDBG. States should not receive less under the reorganized program.

We are also concerned that the structure HUD has proposed is overly restrictive. For example, States should be able to allocate 100 percent of their homeless funds

in accordance with their own homeless strategies. They should not be limited to 15 percent. The State should also be able to establish its own criteria for evaluating applications. In addition, States should have the flexibility to allocate their funds to homeless efforts in entitlement as well as non-entitlement areas.

In addition, we suggest that the formula for allocating funds be similar to the HOME formula, which sets a minimum annual allocation for States. Since such a structure would ensure that each State receives sufficient funds to operate a viable program, it would not be necessary for HUD to administer the program by competition if the appropriation were unusually low in a given year.

In addition, while the citizen advisory boards HUD has proposed may make a valuable contribution to developing a jurisdiction's homeless plan, the ultimate authority for approving and administering the strategy should rest with the jurisdiction's elected officials or their designees. The jurisdiction, not the board, should have final sign-off on the plan. The jurisdiction should also be able to have several representatives on the board—not just one, as HUD proposes.

It is also not clear how the comprehensive homeless plan each jurisdiction would be required to submit would relate to the consolidated plan HUD is now developing. We hope to receive clarification on these points.

FHA/HFA Multifamily Risk-Sharing Program

We are delighted to report that HUD has worked aggressively over the last year to implement the FHA/HFA multifamily risk-sharing demonstration program developed by this Committee. HUD recently announced that 28 State and 5 local HFA's have been approved to participate. We believe this program has tremendous potential to increase the availability of FHA multifamily insurance and thus the production of affordable rental housing.

We recommend that instead of extending the demonstration for two years as HUD requests, you authorize it as a permanent program and remove the cap on the number of units that may be insured under it. The cap was established because the Bush Administration opposed the risk-sharing program and insisted on limiting it. We believe such an arbitrary limit is unnecessary. HUD should be given the discretion to approve as many units under the program as it determines is appropriate in any fiscal year. If demand is high in the next three years and HUD determines that the program is operating effectively, it should not be limited to insuring only 30,000 units over that period.

PROGRAM FUNDS SHOULD NOT BE USED FOR HUD'S ADMINISTRATIVE COSTS

In section 806 of the bill, HUD is requesting authority to divert a portion of housing program funds Congress has authorized for technical assistance and training for program recipients to training of its own staff. While we strongly support adequate funding for HUD's training needs, this funding should be provided in HUD's administrative accounts. It should not come at the expense of program recipients.

Likewise, we urge you to reject HUD's proposal to divert funds from the CDBG program in fiscal year 1995 and fiscal year 1996 to create new computer systems. Again, such systems should be funded through HUD's office expense accounts, not on the backs of program recipients.

National Homeownership Fund Demonstration

In general, NCSHA supports the changes HUD has proposed to the National Homeownership Trust, renamed the National Homeownership Fund. Simplifying the Fund's administration and targeting homebuyers with lower incomes will ensure a more effective use of Federal resources.

We would suggest, however, that the flexibility to provide interest rate write-downs under the Fund not be eliminated. Some applicants may find this to be the best option for the population they serve. In addition, the program should be adaptable to changing circumstances. While interest rates are relatively low now, they could rise substantially in the future, making interest rate assistance a more attractive option.

We would also suggest that eligible applicants under the Fund be limited to States. States can leverage the Fund with MRB financing and other resources, a factor crucial to ensuring that the Fund reaches the maximum possible number of homebuyers. Leveraging will also enable the Fund to reach even lower-income people. Limiting applications to States will not prevent nonprofits from participating. Many States work closely with nonprofits on first-time homebuyer programs.

Preservation

As we have consistently over the past few years, NCSHA must oppose HUD's proposal to weaken the Low Income Housing Preservation and Resident Homeownership Act (LIHPRHA) by reducing the Federal cost limits. Reducing the cost limits

will allow a large number of properties to fall out of the low-income inventory, the very result LIHPRHA was designed to prevent. Substituting tenant-based assistance cannot make up for the loss of projects from the inventory, nor should Congress attempt to shift the cost of this Federal responsibility to State and local governments as HUD proposes. Each year, OMB and HUD propose this amendment, and each year Congress rejects it. We encourage you to reject it again.

Public-Private Partnerships in Public Housing Modernization

We are deeply concerned by HUD's proposal to make up for cutting funding for public housing by encouraging combination of public housing modernization funds with Tax Credits. Demand for the Tax Credit already exceeds supply. HUD should not rely on programs like the Tax Credit to provide the resources necessary to maintain public housing. Instead, HUD should request from Congress such funds as are necessary to maintain the public housing stock, and Congress should provide those funds. We are also concerned that HUD is proposing that State or local governments collateralize public housing agency borrowings. The cost and risk of maintaining the public housing stock is a Federal responsibility which should not be passed on to the States and localities.

Section 8 Issues

NCSHA supports the general concept behind merger of the Section 8 certificate and voucher programs. A number of HFA's administer the certificate and voucher programs in areas of their States. We look forward to working with the Committee to ensure that tenants remain sufficiently protected under the change.

We appreciate HUD's recognition that the current Section 8 administrative fee structure may need revision. Section 8 programs are very complex, and Congress has imposed additional administrative burdens in the last few years (such as family self-sufficiency and portability). While HUD's proposal may help some Section 8 administrators, others may be negatively affected. We have not yet determined whether the overall effect of HUD's proposal will be positive for States. We will complete that analysis soon.

Management Reforms

In considering the management reforms HUD has proposed, we urge the Committee to take the utmost care to ensure that these changes do not financially jeopardize properties. For example, in section 801, HUD proposes to restrict Section 8 contract rent adjustments where the rents exceed the fair market rents (FMR's), unless the owner can prove that the adjusted contract rent would not exceed rents for comparable unassisted units in the market area. We would urge that an additional exception be provided where the property's operating costs require the higher rents to maintain financial viability. If the property is HUD-insured, HUD will suffer the loss if it allows the property to default. In addition, unless HUD can demonstrate that there is sufficient decent, affordable housing in the market area, HUD has an obligation to ensure that the property remains in the low-income inventory.

Conclusion

We commend HUD for its sincere efforts through this legislation to address the overwhelming housing needs confronting our Nation. We encourage the Committee to support a number of these proposals. However, we urge the Committee not to take any action which would have the effect of diverting limited resources from the proven delivery system to untried initiatives.

We look forward to working with you and with HUD on this legislation.

PREPARED STATEMENT OF MARINA CARROTT

COMMISSIONER, CHICAGO DEPARTMENT OF HOUSING

CHICAGO, ILLINOIS

ON BEHALF OF THE

NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION

AND THE ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES

Mr. Chairman and Members of the Subcommittee, I am Marina Carrott, Commissioner of the Department of Housing for the city of Chicago, Illinois.

I am pleased to have this opportunity to provide our views and recommendations to the Subcommittee on behalf of my own city of Chicago, the members of the National Community Development Association (NCDA), and the Association of Local

Housing Finance Agencies (ALHFA) on the reauthorization of our Nation's key housing and community development programs, particularly the Community Development Block Grant (CDBG) program and the Home Investment Partnerships (HOME) program, the two most critical Federal resources available to local governments today.

I would like to express our thanks to you, Mr. Chairman, for your leadership in support of the important Federal housing and community development programs, particularly for outstanding leadership in support of the Home Investment Partnerships (HOME) program.

NCDA is a national membership organization representing more than 500 local governments that administer federally-supported community development, housing, and human service programs. Since 1968, NCDA has been an advocate in securing effective and responsive housing and community development programs for local governments. ALHFA is a national association of professionals working to finance affordable housing for low- and moderate-income people at the local level. Its members are city and county agencies which finance, using a variety of sources. Just last summer, ALHFA and others succeeded in achieving Congressional enactment of permanent extensions of the Mortgage Revenue Bond and Low-Income Housing Tax Credit programs in the Omnibus Budget Reconciliation Act of 1993.

In its reauthorization legislation, the Administration indicates that "it can no longer continue on its current course of standing by while our central cities, aging inner suburbs, and other communities around the Nation fail," but rather HUD must change course and breathe new life and hope in distressed communities. While no one can argue that this is not a desirable goal, NCDA and ALHFA believe that it cannot be achieved at the expense of what have become solid, workable programs that allow our communities to continue the vital progress made in addressing their housing and community development needs.

Community Development Block Grant Program (CDBG)

Mr. Chairman, as you know, this year marks the 20th anniversary of what many call the Federal Government's most successful domestic program, Community Development Block Grant (CDBG). CDBG has been sustained for twenty years as a core program for local governments because it represents a predictable level of funding which can be used with maximum flexibility to address unique community development needs in cities, counties, and towns across this Nation.

Both NCDA and ALHFA are pleased to have worked with the program's Congressional supporters, like the Members of this Subcommittee, to help secure the steady increases in appropriations for CDBG over the past several years.

Mr. Chairman, fundamentally, the CDBG program, as it exists today, is a sound, workable, and effective program. We strongly believe that no major changes are necessary, however, NCDA and ALHFA are proposing a few modifications in the administration of the program, which we believe will strengthen and expand its flexibility and application and further enhance the responsiveness of the program to local needs.

REAUTHORIZATION PERIOD AND FUNDING LEVEL

NCDA and ALHFA strongly encourage the Subcommittee to support the inclusion of a multi-year reauthorization period. A multi-year authorization is essential to consistent administration of the program and ensures program continuity and efficiency, particularly during this most difficult period of Governmental restructuring at both the Federal as well as the local levels.

We recognize that last year's budget agreement has constrained funding for all domestic programs. However, both NCDA and ALHFA concur with the Administration's recommendation of an authorization level of no less than \$4.4 billion for the program in fiscal year 1995 and \$4.6 billion in fiscal year 1996. HUD has recommended a constant funding level in fiscal year 1996 of \$4.4 billion, however, according to HUD's own documents, since the last reauthorization of the CDBG program in fiscal year 1992, the number of directly entitled communities has increased and the financial outlook for local governments has worsened, placing a greater demand on the program to respond to low- and moderate-income need. Funding for the program must be increased to provide sufficient resources to meet the needs of both the existing grantees and new entitlement communities.

NEIGHBORHOOD LIFT PROGRAM

In its authorization bill, HUD proposes \$200 million to create a new economic development initiative for distressed communities called Neighborhood Leveraged Investment for Tomorrow (LIFT). We understand that this new initiative is intended to provide funds to local governments on a competitive basis for industrial, commercial, or mixed-use real estate projects in distressed areas. According to HUD docu-

ments, 75 percent of the funds will be awarded on a competitive basis and 25 percent on a non-competitive basis, to be selected by the HUD Secretary.

While we applaud the Administration's efforts to address a problem affecting many of our communities with an infusion of targeted and expanded economic development resources, it is not clear exactly who the recipients of these funds will be. The Administration originally proposed funding LIFT with a \$200 set-aside of CDBG funds. We cannot support taking formula grant funding, which benefits all entitlement jurisdictions and converting it to a discretionary program, for the benefit of a few.

PUBLIC SERVICE CAP RELIEF

Many NCDA members, Mr. Chairman, have reported increasing pressure on the 15 percent public service cap in the CDBG program. Currently, public services under CDBG are limited to 15 percent of a community's annual grant plus program income. Public services include public safety programs, child care, job training, services for the elderly and handicapped, crime prevention, and recreational services. Both the NCDA and ALHFA Board of Director's adopted resolutions in support of an expansion of the CDBG public service cap from 15 percent to 20 percent. In supporting this policy, we recognize the interrelationship of revitalization activities and needed social services and seek to provide a modest but important increase in program flexibility. Such an increase would allow CDBG recipients the opportunity to provide an expanded level of public services in support of physical development activities and thereby enhance the holistic approach many communities have adopted in responding to their local community development needs.

SECTION 108 ECONOMIC REVITALIZATION INITIATIVE

Mr. Chairman, Members of the Subcommittee, as you know, the HUD Office of Community Planning and Development (CPD) was granted authority in the recently passed Multifamily Housing Property Disposition Reform Act of 1994 to expand the Section 108 Loan Guarantee program that is intended to lead to an increase in new economic development activity at the local level. The funds would be used to leverage loans or grants undertaken to complete economic development, housing, and other related physical development under the CDBG program.

The Section 108 Loan Guarantee program is used to leverage loans or grants that are given to for-profit and not-for-profit entities to undertake economic development, housing, and other related physical development under the CDBG program. Under the Administration's funding initiative, communities could use Section 108 in combination with funds recaptured from the Urban Development Action Grant (UDAG) program to finance a portion of the cost of qualifying economic and neighborhood revitalization projects. Specifically, Section 108 loans could be used to set up a loss reserve account to protect future CDBG allocations, or write-down interest rates that could increase project cash flow available to repay the Section 108 loan.

NCDA and ALHFA understand that HUD has undertaken a broader marketing and educational approach in communities to expand the use of the Section 108 Loan Guarantee program. We strongly support such an endeavor, and expect that HUD's efforts to provide greater visibility to the program will lead to an increased utilization of this importation revitalization tool.

COLONIAS ASSISTANCE PROGRAM

NCDA and ALHFA strongly support the Administration's efforts to aid and enhance the housing, infrastructure, and social needs in severely distressed areas along the United States/Mexico border by extending and expanding assistance for Colonias.

Home Investment Partnerships Program (HOME)

Enacted as the centerpiece of the 1990 National Affordable Housing Act, local HOME administrators have been challenged by this new and intricate housing program and have worked hard at its implementation. We recognized in 1990 that the HOME legislation was far from perfect, primarily as a result of the actions of an Administration which was hostile toward it. However, we worked hard to achieve its passage, even in a flawed state, in exchange for the creation of a greatly needed and long awaited flexible, formula-driven source of Federal housing funds. In 1992, local administrators came back to Congress with a series of legislative changes designed to ease program implementation. This Subcommittee and the Congress were sympathetic to, and accepted, many of the recommendations and changes were ultimately implemented later in 1993. Given the fundamental nature and scope of those legislative modifications, implementation of the HOME program really began in January 1993.

Since that time, the HOME program has been actively working in communities throughout the country. For instance, consistent with the primary intent of the HOME program—expanding the supply of affordable housing—60 percent of the HOME funds are currently being used for rental housing projects, followed by 26 percent for homeowner rehabilitation, and 14 percent for first-time homebuyer programs. Rehabilitation is the number one HOME use with 69 percent of the total funds being committed to this activity.

According to HUD, the average HOME subsidy cost per unit is around \$17,000 with costs at a higher rate for new construction and acquisition and tenant-based rental assistance at lower costs per unit, of \$10,000 and \$5,000 respectively. As of the end of March 1994, the HOME program had assisted approximately 66,834 units and over \$1.173 billion of HOME funds have been committed for housing, leveraging over \$2.711 billion in additional housing funds.

In addition, the HOME program has far exceeded the income benefit targeting guidelines laid out by Congress in the original HOME legislation. According to a statistical analysis of the HOME program issued by HUD in February 1994, over 43 percent of the HOME funds expended have gone to serve those persons at or below 30 percent of the area median income and 24 percent for those persons whose income fall at 50 percent or less of the area median. In terms of homeowner activity, the benefits are more evenly distributed with 37 percent of the funds serving those persons between 31–50 percent of the area median and 27 percent serving those between 0–30 percent of the area median income. These impressive figures provide proof of the effectiveness of this Federal housing block grant program.

While NCDA and ALFHA do not consider commitment or expenditure rates as an absolute measurement of the success of a program nor are we satisfied with HUD's continued use of the "old definition of commitment," it must be noted that, first and foremost, the HOME program has more than doubled its commitment rates (74 percent of the fiscal year 1992 funds and about 15 percent of the fiscal year 1993 allocation), since HUD reported the figures at the end of June 1993, even with the "old definition of commitment." I also take this opportunity to note that although we commend HUD for "revising" the definition of commitment for the HOME program in the recent interim rule to allow funds to be committed in a more reasonable and equitable fashion, we are extremely concerned that the Department has made no effort to alter the C/MI system to reflect this change. Without such a change, HUD will continue to report HOME figures based on the "old definition" of commitment and will be unable to report data reflecting commitment rates under the new definition. In essence, preventing actual implementation of the new definition.

NCDA, ALFHA, and several other national organizations had approached the Department in July of 1993 regarding the narrow definition of "commitment" contained in the HUD regulations. Under the original or "old definition of commitment," a participating jurisdiction (PJ) had to enter into a legally binding contract with a project sponsor for each specific project activity in order for a contract to register in the Cash Management and Information System (C/MIS) as a "commitment." For example, when a PJ undertook a tenant-based rental assistance program or a first-time homebuyers program, no commitments were recognized as binding until each and every individual tenant or homebuyer was identified and entered into the system.

In an attempt to further highlight the inaccuracies currently reflected by the C/MIS system, regarding the actual activity level/commitment rate of the HOME program, NCDA conducted a preliminary survey of its members to determine the commitment rates of the program. According to the over 25 communities from throughout the country that responded to the NCDA survey, 96.5 percent of the fiscal year 1992 HOME funds and 59 percent of the fiscal year 1993 funds are committed, based on the "new definition of commitment." We therefore strongly urge you to consider these, more accurate statistics, when evaluating the HOME program and we also encourage you to request that HUD immediately modify the C/MI system to reflect the "new commitment" rates for HOME and refrain from issuing any further erroneous data until the system is updated.

Considering the number of HUD regulations, notices, and memoranda distributed over the past three years, it has not been easy for many communities to stay current on the numerous HOME changes and clarifications. Since the beginning of HOME, HUD has published or issued nearly 90 HOME-related documents, many with significant policy implications on program operation. Despite these impediments, we believe that the HOME program has truly begun to show its potential and we urge the Committee to continue to enhance the workability of this important housing program.

In order to further enhance and develop a strong network of housing providers, we firmly believe that extensive training and technical assistance must be provided,

on a continuous basis, to States and local governments as well as nonprofit developers. HUD's Office of Affordable Housing Programs, to its credit, has made great efforts to get the technical assistance out to communities. NCDCA and ALHFA, in conjunction with a number of national State and local government organizations, with the support of HUD, have recently created the National Affordable Housing Training Institute (NAHTI), a HOME technical training organization. This entity will coordinate and monitor training and technical assistance efforts for States and local governments to further expedite the use of HOME funds. We appreciate the Congressional support for this important effort and hope to share with you a list of our upcoming technical assistance activities in the near future.

SPECIFIC LEGISLATIVE RECOMMENDATIONS

Mr. Chairman, we would like to register our severe distress and emphatic disagreement with the Administration's authorization request of \$1 billion for HOME in fiscal year 1995 and fiscal year 1996. This represents over a \$1 billion reduction in authorization levels for HOME from the fiscal year 1992 and fiscal year 1993 authorization levels and most certainly sends the wrong message at the wrong time regarding HOME as a major producer of housing in our Nations low- and moderate-income communities. As you heard in my earlier comments, the HOME program is assisting hundreds of individuals and families throughout the Nation, providing them with affordable, clean, and safe housing. We believe that such a low authorization request indicates a lack of commitment on the part of the Administration to both the HOME program and affordable housing in general, as well as a blatant misrepresentation of the program's achievements and benefits.

We encourage the Senate to recommend authorization levels similar to those contained in the House reauthorization bill, H.R. 3838, of \$2.2 billion in fiscal year 1995 and \$2.3 billion in fiscal year 1996.

NCDCA and ALFHA strongly support HUD's decision/provision to allow HOME funds to be used to guarantee loans made by private lenders in support of HOME-assisted housing. However, we urge the Subcommittee to consider the language that we, along with several other national organizations, have recommended and which is submitted in an addendum along with some additional legislative recommendations. Our proposal allows PJ's greater flexibility than the HUD language, to undertake large scale rental projects without the actual draw-down of HOME funds, unless the loan goes into default.

Mr. Chairman, thanks to the work of this Subcommittee and the enactment of the Housing and Community Development Act of 1992 and the recent Multifamily Housing Property Disposition Reform Act of 1994, several of the programmatic inconsistencies found in the original HOME legislation were alleviated. In addition, the fifth Interim Rule provided several useful changes and additional regulatory refinements to the HOME program. Although these accomplishments, coupled with the renewed cooperative partnership between the national organizations and the HUD Administration have served to expedite the use of HOME funds already, we believe that there are still statutory and regulatory modifications which will further enhance the flexibility and responsiveness of the program nationwide.

Mr. Chairman, I would like to submit for the record a supplementary document, which outlines several legislative refinements to the HOME program supported by a number of national organizations representing State and local governments and national nonprofits. These recommendations represent a consensus on our part and we urge you to incorporate them into the reauthorization legislation. They include:

- Revise the Existing Monitoring Requirements;
- Expand Eligible Activities to Include Guarantees of Short-Term Loans;
- Create a Long-Term Loan Guarantee Program;
- Simplify Compliance to Preserve Financial Stability;
- Make Rents More Compatible with Other Programs;
- Restore the Threshold for Eligibility as a Local Participating Jurisdiction;
- Conform the Application of Davis-Bacon for Land Costs to CDBG; and,
- Increase Safety in Low-Income Neighborhoods.

Mr. Chairman, we are pleased that HOME is becoming a well-recognized and effective housing block grant program as envisioned during its creation and for which many of us have fought hard for legislative and regulatory revisions and appropriate funding. For we believe that with these refinements and proper funding, HOME will continue on the road to becoming the Federal Government's premier affordable housing program.

Mr. Chairman, local governments are ready to work with you and Members of the Subcommittee to ensure and facilitate effective and efficient administration of HOME at the local level. We thank you for the opportunity to present the views of NCDCA and ALFHA and their respective members on the HOME program. We

look forward to your continued support and leadership in addressing the critical affordable housing needs of our communities.

Reorganization of the Stewart B. McKinney Homeless Assistance Act

NCDA and ALFHA would like to commend HUD in undertaking the reorganization of the Stewart B. McKinney Homeless programs and I emphasize our commitment to work with the Department of Housing and Urban Development and Congress to ensure success in achieving a "continuum of care" approach to the needs of the homeless. We believe the ideas contained in the Housing Choice and Community Investment Act of 1994 deserve serious consideration and with proper planning and thought could be an enormous help to local communities.

Although NCDA and ALFHA are supportive of HUD's decision to reform the existing system of assistance to the homeless and reorganize the HUD McKinney programs, including the Supportive Housing program (SHP), Shelter Plus Care, Section 8 Moderate Rehabilitation for Single Room Occupancy Dwellings (SRO), Emergency Shelter Grants (ESG), Safe Havens, and the Rural Homelessness Assistance program, we have several areas of apprehension regarding the details contained in the legislation.

Similar to the comments we have made regarding the Consolidated Planning and Submission document also proposed by CPD, we assert that the McKinney reorganization must represent a net reduction in workload and must protect the funding base in order to be beneficial and useful to local administrators. We recognize that the current system does not adequately address the needs of the homeless, however, there is concern that this potentially complicated and unwieldy system outlined in the HUD bill will not address those needs either. There is also significant concern that HUD has not provided enough time to develop such a complex concept.

CITIZEN PARTICIPATION

Mr. Chairman, we are somewhat troubled over the role of the "community planning board," its composition, jurisdiction, and purpose. By mandating the creation of a local board with decisionmaking power, HUD may be debilitating the very process it is attempting to enhance. Considering the composition and power of the local board, it is difficult to determine how communities will balance the concerns of the local elected officials, the issues raised by the public as a result of the citizen participation process, and the concerns of the local board. Rather than adding another layer to the approval process we recommend that the Subcommittee and HUD merely enhance the existing system of citizen participation. We are also uncertain as to who will be held accountable for the homeless assistance program and how much additional conflict will be generated as a result of the proposed system of "many masters."

NCDA and ALFHA are not averse to the concept of a local homeless board, however, we do feel that many communities which already have active and effective homeless boards or task forces will be forced to duplicate these organizations or re-define and align them in order to adhere to the onerous requirements of the "community planning board." HUD should learn from the experience of the HOME CHDO's and adapt their new requirements to enable the effective systems which already exist to qualify for new programs and merely assume the new roles.

Considering the make up of the proposed board, and the multitude of competing interests which would be represented on such a local board, we are worried that "NIMBY paralysis" will occur. A board of this diversity is not well suited to the implementation of a program and should be left to an advisory role. Although well intentioned in its attempt to be inclusive and grassroots oriented, we believe HUD may have deviated too far from the realities of effective program implementation.

LOCAL MATCH

As in all Federal programs, the non-Federal matching requirement continues to be one of the most frequently cited reasons why a jurisdiction may be unable to participate in a particular program. We recognize the importance of promoting public, private, and nonprofit partnerships in solving the homeless problem and we commend HUD for the creation of a uniform match, however, we would recommend several modifications to the proposal as it now exists which include: A decrease in the local match requirement; an automatic waiver for communities suffering severe fiscal distress; and/or the inclusion of Federal resources as match (as currently applicable under the ESG program).

ADMINISTRATIVE EXPENSES

Mr. Chairman, we urge the Subcommittee to allow communities to use up to 10 percent of the homeless funds for overall program administration, rather than the 5 percent recommended in the HUD legislation. Although several of the McKinney

programs currently allow no more than 7 percent for administrative expenses we contend that the costs of the increased coordination and citizen participation called for in the "McKinney reorganization" place additional financial responsibility on local governments, that is not adequately compensated for in a 5 percent administrative allowance. Therefore, in an attempt to be consistent with the other CPD programs, such as CDBG and HOME, and fair to local administrators, we recommend that communities be allowed to use up to 10 percent of their annual homeless allocation for program administration.

FUNDING FORMULA

Considering the fundamental impact such a change, from a competitive process to that of a formula-driven process, could make on the homeless funding stream in some communities, NCDA and ALHFA recommend that HUD and Congress give serious and further consideration to the formula for the "Homeless Housing Assistance Reorganization Act of 1994." Although the formula could provide many communities with new homeless monies never received before, other communities will stand to lose potentially substantial amounts of necessary homeless dollars. We recommend that the formula be studied carefully before finalizing it, to determine the most equitable and appropriate funding formula.

INVOLVEMENT OF PRIVATE NONPROFIT ORGANIZATIONS

Although most communities actively participate with their nonprofit organizations for the provision of their homeless programs, NCDA and ALHFA are uncomfortable with HUD's requirement that each grant recipient make at least 51 percent of the McKinney grant available to private nonprofit organizers. For one, this may be a difficult, if not impossible, requirement for those communities which do not have an abundance of nonprofit providers, in addition, this requirement infers that local governments are not already partnering with nonprofits and/or that local government is incapable of operating solid homeless prevention programs themselves. We recommend that the Subcommittee allow local governments to determine, for themselves, which local agencies are best suited to provide homeless assistance, as has been done in the past. We are certain that you will find, in more cases than not, a majority of the funds will travel straight to nonprofit service providers with proven service records.

CERTIFICATIONS

NCDA and ALHFA are anxious regarding the requirement that the homeless program application contain, "certifications or other such forms of proof of commitments of financial and other resources from each public agency or private nonprofit organization that has a role in the homeless assistance system." Such a provision requires that an applicant certify regarding funding that is yet to be fully determined, due to its competitive nature or the timing of allocations, and/or funding over which they have no jurisdiction. In most cases, such a certification would represent an educated guess or a fabrication on the part of the local jurisdiction.

LINKAGES WITH OTHER PROGRAMS AND AGENCIES

Mr. Chairman, although we are supportive of a holistic approach to serving the homeless and linkages among service providers, we recognize that until the Federal Departments of Health and Human Services, Labor, Education, and others are brought to the table with HUD, the success of this cooperative proposal is limited. NCDA and ALHFA believe that until the human service needs of the homeless are met in concert with the housing needs, the "continuum of care" is likely to fail or at best achieve limited success.

NCDA and ALHFA are also unsure of how the homeless plan required in this legislation will fit into the Consolidated Plan and Submission currently being undertaken by HUD through regulation. Will it represent a duplication of planning functions or will it fit directly into the Consolidated Plan? This question remains unanswered. We would also recommend that the Subcommittee consider expanding the list of eligible activities to include not only those activities eligible under the existing McKinney programs, but also other activities identified in a local government's homeless plan and approved by HUD, as is the case in the HOPWA program. Such a provision would allow communities increased flexibility to best serve the overall needs of their homeless population.

In addition, we recommend that the Subcommittee eliminate the provision which limits State grant monies to use in areas outside allocation units of local government. We recommend that States be allowed the flexibility to use the funding in those areas with the highest level of need, regardless of whether or not they are already receiving direct funding. It is our understanding that the objective of the

McKinney reorganization is to better match the homeless assistance funds with the need. We believe our recommendation serves that purpose well.

Our final point of concern pertains to the level of Secretarial discretion contained in the "McKinney Homeless Housing Assistance Reorganization Act of 1994." Although we are not adverse to flexible Secretarial decisionmaking, we find that the legislation allows the Secretary several opportunities to: Determine the requirements for grants under the competitive program when the appropriation falls below 50 percent of the authorized level of funding; administer a local program if no jurisdiction qualifies as a result of the application process; and, prescribe the requirements of the citizen participation process, among other rather broad discretionary actions. Often when the Secretary receives more discretion, local governments lose decisionmaking power. NCDAs and ALHFAs merely want to go on record supporting the maximum amount of local control and flexibility.

In conclusion, we contend that since the third and final component of the "continuum of care" is permanent housing for every homeless individual, the Administration should support a system of funding that balances emergency and transitional housing with permanent housing. The current funding proposal, which includes cuts to the public housing programs, the HOME program, and other Federal permanent housing programs, coupled with substantial increases in the homeless program budget seem to run counter to the balanced principles of the continuum of care. We encourage both HUD and the Subcommittee to steer away from a "Rob Peter to Pay Paul" principal of funding.

Fair Housing Initiatives

The Administration is proposing to make CDBG expenditures on Fair Housing related activities eligible in their own right so that they no longer fall within the 15 percent public service cap, theoretically allowing a jurisdiction the flexibility to carry on activities it has certified that will affirmatively further fair housing through the programs it funds as a CDBG entitlement recipient. While we support greater local flexibility in determining how to allocate CDBG funds, there is the potential that HUD will penalize grantees who do not allocate a portion of CDBG funds for fair housing activities. There is widespread criticism from HUD that communities are not doing enough to further fair housing. We believe that HUD has provided little guidance in this area and suggest that the General Accounting Office (GAO) be asked to study the issue to identify what communities are currently doing to further fair housing, what they are not doing, and what obstacles are preventing local governments from achieving their fair housing goals.

Public and Indian Housing

Mr. Chairman, although we support the concept of direct loan guarantees, the provision that requires municipalities to provide local resources, to include CDBG funds as collateral for one-half of the public housing modernization and replacement funds could be problematic for local governments. It should be noted that neither CDBG nor the new HOME 108 program provisions require local dollars to act as co-collateral. At a time when HUD is striving to bring many of its programs, specifically those within CPD, into compliance with one another, this requirement is in direct opposition to this often stated goal. Also, communities across America are financially strapped and do not have the ability to fund additional activities. Additionally, in many cases the municipalities collateral could be considered as debt and count against the total debt limit allowed.

While we are generally supportive of the concept, there is some concern that the local government, which has ultimate responsibility for the management of CDBG funds in particular, will have no control in the review and selection process of units to be modernized or constructed. We recognize the need to incorporate public housing into the framework of local affordable housing strategies, however, using CDBG funds as collateral is problematic as it potentially could result in a net decrease in the CDBG funds available for local use.

Federal Housing Administration Initiatives

Mr. Chairman, we are enthusiastic in our support for HUD's initiative which would establish a new FHA program to expand home ownership opportunities in revitalization areas. This proposal permits mortgage insurance on 100 percent of the appraised value of the property (with a mortgage limit of equal to the greater of \$67,500 or 75 percent of the section 203(b) limit), and it is available to households whose incomes generally do not exceed 115 percent of median income. Revitalization areas are defined as Federal empowerment zones, enterprise communities, State-designated enterprise zones, as well as urban neighborhoods targeted by cities and counties for coordinated housing and supportive services programs. This program will help bring FHA insurance to, and expand home ownership opportunities in,

areas currently underserved by FHA. It would also provide essential credit enhancement for local housing finance agency Mortgage Revenue Bond programs which are targeted toward promoting home ownership in inner-city areas. In addition, we support the link between this program and the Administration's home ownership counseling initiative and the downpayment assistance program proposed in the National Homeownership Fund Demonstration.

However, we wonder why the maximum mortgage limits proposed by the Administration for this initiative differ from its proposal in section 302 to increase the maximum single-family mortgage limits. That proposal would establish a new floor limit based on average purchase price data used in the Mortgage Revenue Bond program and increase one of the loan ceiling factors from 75 percent to 85 percent of the FNMA/FHLMC conforming limits (\$17,675), adjusted annually. We both support this increase and recommend that it be applied to the new FHA mortgage insurance program in revitalization areas.

We also note that the Administration's bill does not call for an increase in the maximum mortgage limits for FHA's multifamily insurance programs. Although these limits were last increased in 1992, construction costs have increased by approximately 7.5 percent. We recommend that the multifamily limits both be increased by this amount and then indexed annually thereafter to account for inflation.

Section 305 of the Administration's bill would give FHA general authority to insure, on a demonstration basis, alternative mortgage instruments in partnership with Fannie Mae, Freddie Mac, and State and local housing finance agencies. Such flexibility is important as it would allow FHA the needed flexibility to engage in new partnerships to expand home ownership opportunities.

The bill also proposes a new initiative to enable FHA to engage in a single-family risk-sharing program with selected State and local housing finance agencies. This initiative is patterned after the FHA/HFA multifamily risk-sharing program now underway. We support this initiative and believe it will be useful in high housing cost areas where the FHA maximum mortgage limits are below the average median house prices for the area.

We note, too, that section 507 of the Administration's bill calls for reauthorization of the multifamily risk-sharing program for fiscal year 1995, 1996, and 1997 and making available 30,000 units.

While we strongly support this extension we do not think it necessary to limit the program to 30,000 units. An open-ended authorization is our preference as it would give FHA the flexibility to base the number of units on which it will share risk with qualified State and local housing finance agencies on the level of demand. With reference to the current risk-sharing demonstration, we are pleased to report that five local housing finance agencies, along with 28 State agencies, have been declared eligible to participate. This program is an exciting new approach to multifamily mortgage insurance. It builds on the considerable expertise that housing finance agencies have developed over the past 15 years in financing affordable housing, and it reduces the potential exposure of the Federal Government.

In subtitle B of title III, the Administration proposes to revise the National Homeownership Trust Demonstration by eliminating its interest rate assistance. Instead, the program would be limited to downpayment assistance. Only first-time homebuyers at 80 percent of median income or less would be eligible to participate. We support this revision since the interest rate assistance provisions under current law largely duplicate what is available under other Federal programs such as HOME and CDBG. Instead, the proposal concentrates on what is often the most difficult for low-income, first-time homebuyers to obtain—downpayment assistance. We do, however, strongly oppose the proposed allocation of funds exclusively to State and nonprofit housing entities. Local governments and their housing agencies are every bit as qualified as these entities to administer this program and their participation on an equal basis should be made explicit.

Conclusion

We thank you again, Mr. Chairman, for the opportunity to present the views of the National Community Development Association (NCDA) and the Association of Local Housing Finance Agencies (ALHFA) on the Administration's Housing Choice and Community Investment Act of 1994, which reauthorizes the Community Development Block Grant (CDBG) and HOME Investment Partnerships Act and other important Federal programs designed to improve the lives of low- and moderate-income citizens. We look forward to your continued support and leadership in addressing the critical community development and affordable housing needs in our communities.

APRIL 26, 1994

THE HONORABLE PAUL S. SARBANES, CHAIRMAN
SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

Dear Mr. Chairman:

The undersigned organizations representing State and local governments and national nonprofits offer for your consideration several refinements to the HOME Investment Partnerships program. These recommendations represent a consensus on our part, and we urge you to incorporate them into legislation to reauthorize the Nation's housing and community development laws now pending before Congress. These recommended limited, but important refinements are just that—provisions which will increase the program's flexibility and ease its administration. They include the following:

- Revise the Existing Monitoring Requirements to be More Consistent with Other Federal Programs.
- Expand Eligible Activities to Include Guarantees of Short-Term Loans.
- Create a Long-Term Loan Guarantee Program.
- Simplify Compliance to Preserve Financial Stability.
- Make Rents Compatible with Other Programs.
- Restore the Higher Threshold for Eligibility as a Local Participating Jurisdiction.
- Conform the Application of Davis-Bacon for Land Costs to CDBG.
- Increase Safety in Low-Income Communities.

As representatives of several of our organizations have stated during your recent hearings on the HOME program, it is now realizing the potential which those of us who fought for it anticipated. The funds are being used judiciously, for households whose incomes are substantially below the minimum targeting requirements and with a strong emphasis on *expanding the supply* of affordable housing. These changes will continue HOME on the road to becoming the Federal Government's premier affordable housing program.

We will have other recommendations for your consideration once we have had an opportunity to review the Clinton Administration's reauthorization bill.

Mr. Chairman, thank you for your favorable consideration of our recommendations. Thank you also for adopting the other changes to HOME which were included in S. 1299, recently signed by the President.

Sincerely,

Association of Local Housing Finance Agencies
Council of State Community Development Agencies
Local Initiatives Support Corporation
National Association of Counties
National Association of Housing and Redevelopment Officials
National Community Development Association
National Council of State Housing Agencies
National League of Cities
U.S. Conference of Mayors
The Enterprise Foundation

Revise the Existing Monitoring Requirements

Issue: Section 226(b) of the HOME statute requires each Participating Jurisdiction to undertake annual on-site monitoring of each rental project funded with HOME funds to insure compliance with the program's targeting requirements and rent restrictions. This requirement creates an administrative as well as a cost burden.

Recommendation: Amend section 226(b) by replacing the current requirement with a requirement that Participating Jurisdictions develop a monitoring plan for HOME-funded rental projects meeting the following: Monitor the project initially and thereafter every three years, performing an on-site comprehensive financial and management review; and perform an annual desk review of tenant files and financial statements. The annual desk review may include verification of tenant incomes, rents, compliance with Section 8 Housing Quality Standards, and adherence to other HOME program requirements.

While we recognize the importance of thorough monitoring of HOME projects, we do not believe that the onerous requirements of current law are necessary to insure appropriate management of the program. This recommendation allows for initial monitoring when the project is placed in service in order to provide a base line, and then recognizes that subsequent annual on-site reviews are unnecessary, costly, and inefficient.

Expand Eligible Activities to Include Guarantees of Short-Term Loans

Issue: Section 212(a)(1) of the HOME statute sets forth the eligible uses of funds. That section is silent on whether HOME funds can be used as credit enhancement to leverage financing from private sector lending institutions. Thus far, HUD has taken the position that guaranteeing all or a portion of a private loan is not a permissible use of HUD funds.

Recommendation: Amend section 212(a)(1) by explicitly authorizing Participating Jurisdictions to use HOME funds to provide a guarantee or insurance for all or a portion of such non-Federal financing for a period of time to support HOME-assisted single and multifamily housing. The guarantee could cover the risk of construction or rehabilitation in the case of single-family housing, rent-up, and some initial period of occupancy for multifamily housing. The guarantee would constitute a pledge of some or all of a Participating Jurisdiction's current allocation. The amount of the guarantee might decline over the life of the loan depending on its structure. The Participating Jurisdiction would not draw down the funds for the guarantee, but it would reserve the amount in its HOME Trust Fund. Only in the event of a default would the funds be drawn down. Fannie Mae and Freddie Mac could be encouraged to buy these loans and the permanent loans which take out these loans.

Amending the statute as proposed would enable scarce HOME funds to be stretched, and it would also encourage partnerships with the private sector.

Create a Long-Term Guarantee Program

Issue: There is a need for Participating Jurisdictions to be able to leverage future year allocations of HOME funds in order to significantly expand the number of units which can be financed in any year.

Recommendation: Amend the HOME statute to create a long-term loan guarantee program modeled after the Section 108 loan guarantee program in CDBG. The program could work either of two ways:

1. Participating Jurisdictions could provide guarantees for loans on HOME-assisted single-family and multifamily housing. This loan guarantee would be sufficiently flexible to cover construction and permanent financing, home ownership and rental housing, taxable and tax-exempt financing, partial and full coverage against losses, and short- and long-term guarantees. The guarantees would be backed by the Jurisdiction's future HOME allocations. Jurisdictions could provide guarantees in an aggregate amount up to five times their annual allocation. No HOME funds would be drawn down unless the loan goes into default. Fannie Mae and Freddie Mac could be encouraged to buy permanent loans guaranteed under this authority. This option would require Federal loan guarantee authority.

Under this option a Participating Jurisdiction would issue a loan guarantee to a project lender. The guarantee would be backed by a stand-by loan agreement between the Participating Jurisdiction and HUD. Under the agreement, HUD would cover any claims on the guarantee by issuing notes on behalf of the Participating Jurisdiction that would be repaid, with interest, from the Jurisdiction's future HOME allocations. This could be done over a period of time up to 30 years. However, no funds would be drawn down unless the loan goes into default. If a call is made on the stand-by loan agreement, the repayments to HUD would be subject to HOME's matching requirements. In addition, fulfillment of a guarantee obligation would not be treated as a refinancing, nor would it be subject to the prohibition

against investing HOME funds in a project prior to the termination of the use restrictions.

2. Participating Jurisdictions could borrow against their future HOME allocations to provide an up-front capital subsidy (equity contribution) to reduce the rents on a multifamily project to make them affordable. Under this approach HUD would guarantee notes issued by a Participating Jurisdiction which would be repaid in annual increments from the Jurisdiction's future HOME allocations. Used in this fashion a sufficient amount of HOME funds could be aggregated to undertake either large-scale projects or engage in substantial production of units. This option would require Federal guarantee authority.

The following is an example of how this option would work in Fairfax County, Virginia. A new unit of housing in the county produced under the inclusionary zoning ordinance is a modest townhouse unit which costs approximately \$90,000 to build. The county receives \$1.5 million in HOME funds. Using \$25,000 per unit of HOME funds to fill a financing gap, the county could provide 60 units annually which would rent for between \$681 and \$864 (less utilities) to a family of four at 50-60 percent of median income.

In the county's Working Singles SRO development of 20 efficiency apartments, which was built using HOME (50 percent) and CDBG Section 108 funds (50 percent), rents are \$364 (including utilities). The facility has no debt, and the units rent to a person at a minimum income of \$13,525 per year (30 percent of the median income). The total cost of the project was \$1 million (\$50,000 per unit).

Increasing the rents for units in the Working Singles development to \$425 (including utilities) would make these units affordable to persons at 40 percent of the median income. The increased rent would yield \$61 per month/per unit for debt service. This translates into a \$184,000 mortgage, 18 percent of the total project cost. Thus, a capital write-down of \$816,000 would be necessary to provide 20 efficiency apartments at \$40,800 per unit that rent to households at 40 percent of the median income. Therefore, in a given year at best \$1.5 million of HOME could provide 37 SRO units at \$40,800 per unit equity. Thus, in order to avoid an ongoing rental subsidy, a project such as this must have a large equity payment up-front.

However, if, instead of using HOME funds for a direct equity contribution in individual projects, they were used to pay annual debt service as they do in the CDBG Section 108 program, many more units could be produced. The CDBG Section 108 program allows jurisdictions to borrow up to five times their annual entitlement amount, with future year's CDBG funds pledged for annual repayments. If Fairfax County could borrow five times its annual HOME allocation over a 20 year period at 7 percent, this would yield \$7.425 million (\$7.5 million less one percent in financing costs) in available equity. In the townhouse example above, this would provide approximately 297 units at \$25,000 per unit, depending on the number of bedrooms. In the SRO example, approximately 182 units at \$40,800 per unit in equity could be produced. Debt service costs would total \$400,000, leaving \$1.1 million available to the county for other affordable housing activities.

With the ability to use a "HOME 108" loan, a substantial number of units could be brought on line and be in service for the next 20 years. These units would not need annual rental subsidies. Also, the administrative cost of producing 60 units versus 891 is about the same.

While a five times multiplier was used in the above example, the impact is even greater with a larger multiplier:

<i>Entitlement Multiplier</i>	<i>\$ Million</i>	<i>SRO Units</i>	<i>Townhouse Units</i>
5	7.425	182	297
10	14.850	364	594
15	22.275	546	891
20	29.700	728	1,188

These examples have been simplified for presentation purposes. However, they clearly illustrate that a "HOME 108" program is needed to significantly expand HOME's potential as an effective production tool.

Simplify Compliance to Preserve Financial Stability

Issue: Under section 215(a)(3) of the HOME statute, whenever a tenant's income increases above 50 percent of median income, he or she is no longer considered to be "very-low-income" and the project owner must rent the next available unit to a very-low-income household. This will occur when the tenant's income rises even the

smallest amount above 50 percent of median income, even from 49 percent to 51 percent of median.

This requirement, when combined with HOME's requirements on maximum rents, presents the project owner with a serious dilemma. HOME requires the project owner to lower the rent on the new "very-low-income" unit. Although HOME permits the project owner to raise the rent on the formerly "very-low-income" tenant, that could be a serious hardship for families that have not had a significant change in their economic situation. Further, local rent regulations in many jurisdictions prohibit the project owner from raising the rent on the formerly very-low-income tenants.

The result is that the project owner is forced to choose between two undesirable outcomes—either see the income of the project decline over time, jeopardizing its operation and maintenance, or raise the rent substantially on the formerly very-low-income, now low-income tenant.

This problem was recognized and resolved in the Low-Income Housing Tax Credit program by allowing a tenant's income to increase to 140 percent of the target level before the tenant is no longer considered to be "very-low-income." In other words, a tenant's income can increase to 70 percent of median income before the corrective rules apply. This treatment should apply to HOME-assisted housing as well.

Recommendation: Amend section 215(a)(3) to provide that a tenant in a HOME-assisted unit will continue to be considered "very-low-income" until the household's income increases to 70 percent of median income. Adopting this provision would help to insure long-term financial stability of projects, reduce the potential for large increases for low-income tenants, and make the HOME program more consistent with the Low-Income Housing Tax Credit program.

Make Rents Compatible with Other Federal Programs

Issue: Section 215(a)(1)(A) of the HOME statute requires HOME-assisted rental units to bear rents not greater than the lesser of Fair Market Rent (FMR) or rent that does not exceed 30 percent of 65 percent of median income adjusted by unit size. This has created difficulties in combining HOME with other forms of Federal assistance which allow contract rents to be set at higher levels, while regulating the tenant contribution so that the unit remains affordable to low-income families. The difference between the affordable level and the actual rent is typically made up by Federal, State, or local rental assistance.

This is primarily an issue under HOME when 30 percent of 65 percent of median income is less than the FMR, as it is high-cost areas. While projects funded under other Federal programs could set rents up to the FMR, or even above in the case of McKinney, the HOME rents must be below the FMR. This reduces the project's cash flow, which could render the project infeasible from the start or threaten its long-term stability. Under the Low-Income Housing Tax Credit program the tenant's contribution to rent is limited and the difference may be bridged with rental assistance. Under the McKinney SRO program, Section 8 assistance is provided for rents up to 120 percent of median income.

Recommendation: Amend section 215(a)(1)(A) of the HOME statute to provide that the limitation on rent apply only to the tenant's contribution, and permit a contract rent up to the FMR (or higher where allowed), with the difference made up through a Federal, State, or local rent subsidy.

Restore the Threshold for Eligibility as a Local Participating Jurisdiction

Issue: Section 216(10) of the HOME statute reduces the threshold for local Participating Jurisdictions from \$500,000/\$750,000 to \$335,000/\$500,000 whenever the appropriation for the program falls below \$1.5 billion. The HOME threshold was reduced to \$335,000 when the fiscal year 1993 appropriation was reduced to \$1 billion from the previous year's \$1.5 billion. With this lower threshold, additional communities qualify for direct funding and additional consortia may be formed. Accordingly, local Participating Jurisdictions which qualified when the threshold was at \$500,000 received less funding.

In fiscal year 1994, although HOME funding was increased to \$1.275 billion, the threshold of \$335,000 remained in effect since the appropriation was below \$1.5 billion. As more and more communities qualify for the limited amount of HOME funds, the amounts available to those already qualified are shrinking. A return to the original threshold of \$500,000 would slow down this dilution of funding.

Recommendation: Amend section 216(10) by restoring the threshold to \$500,000/\$750,000 and including language grandfathering those communities and consortia which have already qualified at the lower threshold in order not to penalize them.

Conform the Application of Davis-Bacon for Land Costs to that of CDBG

Issue: Section 286(a) of the HOME statute requires that Davis-Bacon prevailing wages be paid when funds are used for the construction of affordable housing with 12 or more units. The statute specifies construction as the activity which triggers Davis-Bacon. However, HUD, through its Interim Rule, has expanded the scope by defining land acquisition as an activity triggering Davis-Bacon. HUD takes this position by asserting that the acquisition must be in conjunction with construction of a particular housing project. In effect, HUD unjustifiably has adopted an "integrally and proximately related" test.

The legislative history of the HOME program gives no indication that Congress intended for Davis-Bacon to apply when funds are not used for construction. Congress could have chosen to use broader, project-oriented language as it has done in other statutes.

Use of HOME funds for land costs is analogous to use of CDBG funds for this purpose. In 1987, following two years of review, the Justice Department, Department of Labor, and HUD rejected an "integrally and proximately related" test under which funding for land acquisition with CDBG would have triggered Davis-Bacon. Congress followed suit that year, did not codify such a test, and rejected attempts to expand the scope of Davis-Bacon when CDBG funds land acquisition.

Land acquisition financed with HOME should not trigger Davis-Bacon because Federal funds are not paying for construction work. Clarifying this fact will have a significant impact on the ability of Participating Jurisdictions and CHDO's to use HOME to expand the supply of affordable housing. When Davis-Bacon prevailing wage rates are triggered, the cost of housing construction can increase 20-30 percent. This increase jeopardizes the affordability of some projects. Minority and small contractors often are particularly adversely impacted by the paperwork and wage requirements of Davis-Bacon.

Recommendation: Amend section 286(a) of the HOME statute to clarify that the application of Davis-Bacon be the same for the HOME and CDBG programs, i.e. that the use of HOME funds for land acquisition does not trigger the prevailing wage law on construction work that is subsequently undertaken and privately financed.

Increase Safety in Low-Income Communities

Issue: To increase the presence of law enforcement officials in low-income communities suffering from crime and the fear of crime, encourage stronger and more responsive relationships between police and community residents, and foster the development and preservation of secure neighborhoods, the HOME statute should be amended to permit Participating Jurisdictions to waive the income restrictions for HOME-assisted housing occupied by law enforcement officials.

Recommendation: Amend section 215 of the HOME statute to permit Participating Jurisdictions to offer the lesser of 10 percent of the units in a project or five units to law enforcement officials without regard to the otherwise applicable income limits. However, in no case may law enforcement officials occupy all of the units in a project (unless it is a single-family home), and the number of units made available programwide may not exceed 5 percent of the total number of affordable units assisted by the Participating Jurisdiction. In addition, the HOME-assisted units under this provision must be located in a low-income neighborhood experiencing high rates of crime and disorder.



City of Chicago
Richard M. Daley, Mayor

Department of Housing

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Commissioner

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May 10, 1994

The Honorable Paul Sarbanes
United States Senate
Chairman, Committee on Banking, Housing
and Urban Affairs
Hart Senate Office Building, Room 309
Washington, DC 20510

Attention: Paul Weech
Staff Director

Dear Senator Sarbanes:

When I testified before the Committee on Banking, Housing and Urban Affairs, Subcommittee on Housing and Urban Affairs, which you chaired on May 3, 1994, you expressed interest in receiving additional information concerning discrepancies between commitment of HOME funds as evidenced by participating jurisdictions and the Department of Housing and Urban Development Cash Management and Information Systems.

I am submitting herewith data from the City of Chicago comparing the City's record of commitments to HUD's dating back to '92. We consider funds to be committed by the City when our City Council passes a legally binding ordinance approving project specific financing or awards of HOME funds to subrecipients.

Very truly yours,

Marina Carrott
Marina Carrott

cc: Mr. Edward Rosado
Mr. Edward M. Malan

THE OFFICE OF THE COMMISSIONER OF HOUSING
1994 CITY LIVABILITY



CITY OF CHICAGO
DEPARTMENT OF HOUSING
HOME PROGRAM
COMPARATIVE RATE OF COMMITMENT OF HOME FUNDS

05/07/84

MONTH OF COMMITMENT	H O M E 1 9 8 2				H O M E 1 9 8 3			
	PER CITY PASSAGE DATE	PER HUD CASH MGT SYSTEM	RATE OF COMMIT CITY	RATE OF COMMIT HUD	PER CITY PASSAGE DATE	PER HUD CASH MGT SYSTEM	RATE OF COMMIT CITY	RATE OF COMMIT HUD
SEPTEMBER 1982	\$1,083,939		8.4%					
OCTOBER 1982	3,083,939		8.4%					
NOVEMBER 1982	5,600,414		15.4%					
DECEMBER 1982	14,315,205		38.4%					
JANUARY 1983	14,315,205		38.4%		0			
FEBRUARY 1983	14,315,205		38.4%		0			
MARCH 1983	23,384,827		84.3%		0			
APRIL 1983	23,384,827	\$3,063,939	64.3%	8.4%	0			
MAY 1983	23,429,827	3,063,939	64.5%	8.4%	\$80,000		0.3%	
JUNE 1983	24,331,748	21,744,314	87.0%	59.9%	368,418		1.5%	
JULY 1983	24,511,748	21,744,314	87.5%	59.9%	368,418		1.5%	
AUGUST 1983	25,986,380	23,384,827	71.8%	64.3%	1,808,891		7.5%	
SEPTEMBER 1983	32,088,457	23,384,827	88.3%	84.3%	7,988,094		33.3%	
OCTOBER 1983	38,327,600	23,449,827	100.0%	64.8%	7,988,094		33.3%	
NOVEMBER 1983	38,327,600	29,150,273	100.0%	80.2%	9,113,401		38.0%	
DECEMBER 1983	38,327,600	36,299,085	100.0%	99.9%	14,864,905	\$3,759,922	81.8%	15.7%
JANUARY 1984	38,327,600		100.0%	100.0%	14,864,905	4,126,340	81.9%	17.2%
FEBRUARY 1984	38,327,600		100.0%	100.0%	14,864,905	14,864,905	81.9%	81.9%
MARCH 1984					17,891,643	17,891,643	74.5%	74.5%

PREPARED STATEMENT OF RICARDO DIAZ

EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF THE CITY OF MILWAUKEE, WISCONSIN
ON BEHALF OF THE
COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES (CLPHA)

Mr. Chairman, Members of the Committee, and distinguished guests, my name is Ricardo Diaz, and I am the Executive Director of the Milwaukee Housing Authority. I am testifying today on behalf of the Council of Large Public Housing Authorities (CLPHA) whose 60+ member Authorities own and manage 40 percent of the Nation's public housing stock plus hundreds of thousands of Section 8 certificates and vouchers. I would like to thank you for the opportunity to testify today, and would especially like to direct my remarks toward the provisions of HUD's legislative proposals relating to severely distressed public housing.

Housing Authorities admire Secretary Cisneros' vision for changing public housing through the HOPE VI initiative. The challenges of this new program have encouraged HUD, the PHA's, and the residents to work together more closely to re-think public housing and thoroughly reassess the way we do business. The Secretary has taken some very bold steps that have stimulated our thinking about more effective strategies for public housing, and we are encouraged to hear that this new thinking is now going on at HUD, too.

HOPE VI offers new opportunities and encourages partnerships among public and private agencies that have sometimes not worked together very well in the past. For example, local organizations and governments have had to re-examine their services to public housing residents, who often live in isolated communities.

HOPE VI has brought our staff and residents closer together in planning for changes at one of our developments. Resident participation has never been greater, and there is renewed interest and enthusiasm about the possibilities for improvements to our HOPE VI development. I think our residents have developed some excellent recommendations, which they are very anxious to begin implementing.

I realize that every new program requires time to develop, but the delays have been somewhat disappointing. HOPE VI offers many opportunities for our community, not the least of which are jobs for our residents and the entire Milwaukee community. I look forward to the day in the very near future when we can actually begin to implement our plans.

Mr. Chairman and Members of the Committee, I would like to thank this Committee for having initially made the proposal to establish a National Commission on Severely Distressed Public Housing, a Commission which in turn deserves credit for making an excellent set of recommendations that became the basis for Congress' enacting this important new program.

I also would like to thank Senator Barbara Mikulski for initiating the HOPE VI program and including over \$1 billion for it in her appropriations bills for fiscal year 1993 and fiscal year 1994. She has been exceptionally concerned that this new program should break out of old bureaucratic patterns and allow PHA's and residents to work together in new ways.

I also want to thank you, Mr. Chairman and Members of the Committee, for your support in creating and passing section 24 shortly after HOPE VI was passed by the Appropriations Committees. Section 24 explicitly authorizes a new program for severely distressed public housing, and HUD has begun to look at the possibility of conforming HOPE VI to section 24 as allowed by the HOPE VI legislation. We see many opportunities for improvement in this.

Although 1993 was a difficult year for the new Administration as it took over HUD and tried to revamp it and get it moving again, HUD is now making real progress in dealing with issues related to HOPE VI. We understand that a grant agreement releasing the money is imminent, and Milwaukee will be able to start work immediately, as soon as that happens. We and our residents are eager to go, and to prove that this new, more flexible HOPE VI can be a success.

Mr. Chairman, there are certain basic principles we are trying to achieve under the HOPE VI program.

First, we are trying to achieve a unified program, rather than simply pulling together pieces from all of the fragmented programs of the past.

Second, we seek to have these revitalization activities freed from the requirements of HUD's site and neighborhood standards, which restrict the placement of replacement housing. Virtually all of these revitalization activities have as one of their primary goals the deconcentration of low-income and minority households on public housing sites that currently have high densities of such families.

Third, we are seeking your help in breaking free from a plethora of other rules, requirements, and regulations that have prevented PHA's and residents from suc-

cessfully turning around severely distressed public housing previously. It is absolutely essential that we be freed of excessive red tape and allowed to carry out these activities in new ways. For example, we need the flexibility to achieve a greater economic mix and a broader range of income at our developments. Most PHA's would like greater freedom to restructure the occupancy of the developments using revised local preference rules. And it would be helpful if they could set rents more flexibly using ceiling rents based upon local neighborhood comparability. In these and a variety of other areas, it is very important to the success of the program that PHA's have more freedom from the current provisions of the Housing Act of 1937.

CLPHA strongly supports the provisions of section 214 which would allow the Secretary to waive certain statutory provisions of the Housing Act of 1937. However, we are concerned that the provisions of the bill fail to go far enough to give PHA's the solid sense of support they need. Rather than simply authorizing HUD to grant waivers to these provisions of the Housing Act of 1937, we encourage you to state in the bill that PHA's will be allowed to have this flexibility as a matter of right.

In addition, HUD's proposals in section 214 might have the effect of taking away with one hand what they seem to be offering with the other, since the proposed language states that "in no circumstances may the Secretary waive, or specify alternative requirements for, statutory requirements related to nondiscrimination, fair housing, . . . etc." We appreciate what HUD is trying to achieve here, but we also know that past efforts to deal with impaction rules, local preferences, site and neighborhood standards, and special rent levels have often become entangled in the difficulties and past interpretations of complex existing civil rights statutes and regulations. We urge that it be made clearer that PHA's do have greater flexibility in these areas, because of the special nature of the community revitalization efforts they are undertaking as part of this program.

Subsection (e) of the general program requirements of section 24 would be amended to allow demolition and replacement on site or in the same neighborhood if the number of replacement units provided in the same neighborhood is fewer than the number of units demolished as a result of the revitalization effort. This would relieve the PHA's of complying with "site and neighborhood standards" (the impaction rules) if replacement was on site or in the same neighborhood. This is a major issue facing the revitalization program. We welcome the language proposed by HUD, but think it should go even further and not be restricted to "the same neighborhood" but be extended as a matter of right to any neighborhood. PHA's need a clear statement of authorization from Congress as to what they are going to be allowed to do here. Up to this point, HUD has told the PHA's one thing, but it never quite seems to materialize, and out in the field, when that happens people come not to believe you, and you tend to lose credibility.

We are also very grateful to Rep. Roukema for sponsoring a bill on the House side that would amend section 24 to clearly allow greater flexibility to PHA's, expand the eligible activities for which planning grants may be used, expand the allowable methods for providing replacement housing, establish a block grant approach to funding this program, allow sole source procurement for community services and support services, and recognize that costs will be different for this program than under the public housing modernization or development programs.

I am attaching as Appendix A to my testimony a number of further comments on HUD's 1994 legislative proposals concerning severely distressed public housing. The Senate already passed its own bill, S. 1299, last year, as drafted by your Committee. That bill already anticipated most of the items in HUD's 1994 proposals, which we are commenting upon in Appendix A. I would be happy to respond to any questions about these items which the Committee may have.

In closing, I would like to say one more time that we in Milwaukee are ready to go forward. Secretary Cisneros has had a vision, and organizations such as CLPHA are grateful for having had the opportunity to interact with HUD on developing some of the program specifications. Now, in some cities, especially because of the short construction period, we cannot afford to wait any longer. Every day that passes is another day that residents become more frustrated. We now have an irreversible process. The residents' expectations have been pretty low in the past but now you've got their attention. The Secretary has been in Milwaukee, as have staff of the Office of Severely Distressed Public Housing. The credibility of all of us, not only of HUD but of PHA Directors such as myself in the field, is on the line, and we've got to deliver. In Milwaukee, we only have about a 5 month construction season each year, and if we let this construction season go by in 1994, it will be into 1995 before we can really do anything. We would like to start now.

Thank you again for allowing me to present these remarks to this Committee.

Appendix A

DETAILED CLPHA COMMENTS ON PROVISIONS OF HUD'S LEGISLATIVE PROPOSALS CONCERNING AMENDMENTS TO SECTION 24 OF THE HOUSING ACT OF 1937

The bill repeals the requirement that HUD must compile a list of public housing developments considered to be distressed for purposes of eligibility for this program. CLPHA supports this change. There is a lack of systematic data about the detailed characteristics of individual public housing developments throughout the country at a level sufficient to allow HUD to classify developments as either distressed or not distressed. Instead, HUD should require evidence of distress, according to criteria established in law and regulation, at the time a PHA applies for funds. Approval of a grant by HUD would indicate that HUD agreed the development is distressed. A development would never be stigmatized, however, by being labeled distressed before funds are awarded to address its problems.

The bill would increase the planning grant cap to \$500,000. CLPHA supports this change and urges that the bill make it clear that a PHA may apply for planning funds, in its own discretion, either: (a) for the portion of the development for which the PHA intends to apply for section 24 funds; or (b) for the entire development.¹

The bill adds requirements in section 24 for community services elements in planning and implementation grants. CLPHA supports this addition and agrees that community services are an essential part of the program.

The bill would clarify that funding provided under section 24 may be used to fund replacement housing. CLPHA supports allowing section 24 funds to be used for replacement housing, but also recommends that the Committee spell out that funds other than section 24 may also be used for such purpose, e.g. Section 8 funds and public housing development funds, to the extent available, as well as State and local funds.

We also encourage the Committee to add wording that would require HUD to fund any rental assistance units used as replacement housing out of ordinary Section 8 annual appropriations, to the extent appropriations are available, and that only if such funds were not available would a PHA be required by HUD to use its section 24 funds for rental assistance.

The cap on community services would be raised to 20 percent. CLPHA supports this change.

The amendment would require a local contribution for support services, and would broaden the types of agencies that can make such a contribution. CLPHA supports this amendment.

CLPHA is very concerned about the process that was used by HUD to select PHA's for grants in Rounds One and Two of the HOPE VI program. HUD's proposed amendment would establish one sole criteria, national geographic diversity, for allowing the Secretary to "select a lower-rated, approvable application over a higher-rated application to increase the national geographic diversity among applications approved under this section." While CLPHA does not oppose greater flexibility, we are concerned that this amendment is likely to have exactly the opposite effect from what is claimed, namely that it would actually require HUD to use in the future the same overly simplistic and mechanical point scoring system which it used in Rounds One and Two, with only one allowable exception—national geographic diversity. CLPHA strongly recommends that the provisions of section 24 establishing the selection process be substantially changed and improved.²

Unlike the procedures HUD used in Rounds One and Two, HUD should always make site visits *before* approving the selection of a PHA for a grant award, to verify that the information contained in the grant applications is reasonably accurate. HUD should not limit its evaluations of the applications to very narrowly construed interpretations of the technical provisions of the NOFA, as it did in the first two rounds, but should also consider whether or not the proposed course of action makes sense generally. It is also very important that HUD establish some minimum standards and criteria for implementation grant awards. For example, CLPHA recommends that any PHA applying for section 24 funds should be required to demonstrate that:

1. The PHA has carefully and thoroughly assessed the problems of the development, and the data presented in the application is reasonably complete and accurate.

¹ In some cases, funds will be available for planning for the balance of the development from other sources.

² We would like to submit further recommendations to the Committee at a later time in this area.

2. The development is in fact severely distressed according to one or more of the criteria established in statute or regulation.

3. The proposed course of action contained in the grant application seems generally appropriate to the problems and opportunities identified at the development, compared to any other realistically available course of action.

4. The plan has the support of local community officials.

5. The PHA and the residents of the development, working together, have defined clear objectives and performance measures for improving the management of the development in the future.

6. The PHA either has the demonstrated management capability to implement the section 24 program, or, if not, has expressed a willingness to name a qualified alternative administrator.

7. There is an active resident organization which is ready to participate in the process, and its role has been reasonably well defined.

The bill would also amend section 24 to allow up to one third of any units to be replaced with Section 8. CLPHA supports this proposal.

CLPHA is concerned about defining severe distress as meaning a development that is occupied by families with children which have extremely low income, high rates of unemployment, and dependency on various forms of public assistance. This definition would include almost all non-elderly public housing developments as "distressed," and therefore would not be helpful in distinguishing between "distressed" and "non-distressed" developments.

Low income is a criteria for admission to public housing, and this group of households is the group that public housing is intended to serve. The occupancy of a development by such households should not be taken as automatically categorizing such a development as "distressed."

Instead, the definition of distress should mean a concentration of very-low-income people without adequate access to such basic human necessities as grocery stores, banks, good schools, transportation, or who are living in an environment that is dangerous and insecure, e.g. where there is a lack of adequate police protection and there are gangs on the streets, drug addicts using vacant units, etc. It is the social, environmental, physical, or other living conditions that indicate distress, not merely the income and employment characteristics of the households themselves.

CLPHA disagrees with the recommendation that development be required, in order to become eligible for section 24 funds, to be *both* physically AND socially distressed. Either one or the other or both should justify its being eligible. The term OR should not be replaced with AND at the end of subsection (h)(5)(A).

CLPHA also opposes adding a statutory requirement, as a condition of eligibility, that a development "cannot be revitalized through assistance under other programs, such as the programs under sections 9 and 14. . . ." It is virtually impossible for a PHA to meet this test of proof. Most distressed developments could be dealt with if adequate modernization funds were received, especially if a substantial proportion of modernization money could be used for social services, security, and management improvements as will occur under HOPE VI. Adding this provision will only lead to extensive bickering between HUD and the PHA's over the meaning of the phrase "could be dealt with if . . ." The only test of eligibility should be, "does the PHA have the money from some other source to do the job?" If not, the development should be eligible for a grant.

The bill stipulates that community services must be provided on a volunteer basis. CLPHA recommends that this be amended to allow stipends and training grants.

The proposed definition also says the services are to be "for the social, economic, or physical improvement of the community to be served." We recommend that this be clarified to indicate that the "community to be served" need not be limited to the public housing development being funded under section 24, but could also include the broader neighborhood and community.

The proposed definition of support services says "such activities may allow for participation of the residents of the neighborhood." We recommend that this phrase be added under "community service," too.

The definitions of support services and community services should also be amended to allow not only the costs of "activities" but also facilities and other items needed to support such activities.

The bill clarifies the eligibility of severely distressed housing for public housing operating subsidies. CLPHA supports this technical amendment as proposed, but recommends that it be expanded to include housing developed as replacement housing using funds other than HOPE VI funds, e.g. State and local funds.

CLPHA also recommends that another eligible purpose for the use of section 24 funds would be to enable the PHA to establish, at the time of re-occupancy, a reserve account for the development.

CLPHA also recommends that a provision be added to the statute requiring PHA's, prior to re-occupancy of the development, to prepare and submit to HUD a budget for the development that will provide fully adequate funding needed for the ongoing management of the development in the future, that will ensure the long-term viability of the improvements which have been achieved. Such a budget should include adequate funds for management, maintenance, security, and needed services, and HUD should add funding to a PHA's PFS allocation for these purposes, not require the PHA to take the funds away from some other development.

PREPARED STATEMENT OF F. BARTON HARVEY, III
CHAIRMAN OF THE ENTERPRISE FOUNDATION

Chairman Sarbanes, Senator Bond, and Members of the Subcommittee, thank you for the opportunity to testify about the role that nonprofits play in the affordable housing delivery system and the Department of Housing and Urban Development's proposed reauthorization bill. We appreciate your willingness to listen to what community-based nonprofits can do to further the goal of decent and affordable housing for all Americans.

This morning I would like to discuss the broad outlines of what The Enterprise Foundation does and how Federal policies and programs have an impact on the work of community-based nonprofits.

The Enterprise Foundation

The Enterprise Foundation is a nonprofit organization founded by Jim and Patty Rouse in 1982. Our mission is to see that all low-income Americans have access to fit and affordable housing so that they can move up and out of poverty into the mainstream of American life.

We work with 388 nonprofits in over 150 cities by providing loans, grants, and technical assistance. Enterprise works with groups to enlarge their capacity to provide low-income housing and help them build local partnerships. We provide nonprofits with loans at below market interest rates and offer predevelopment and acquisition financing. This working capital is otherwise difficult for nonprofits to obtain. We offer guidance on how to link human support services to those being housed. Enterprise also offers expertise in project financing, development, and property management.

We recognize that each investment is not just a financial transaction, but an integral part of the physical and social fabric of a neighborhood. The net result of this activity is that through December 1993, The Enterprise Foundation has helped nonprofits make possible more than 36,341 new and rehabilitated units of housing for the poor and has invested almost one billion dollars of grants, loans, and equity with nonprofit housing producers, leveraging several times that amount in total development costs.

The reason that The Enterprise Foundation has dedicated itself to the production of low-income housing is that we believe that housing is the essential *platform* for combating all of the destructive effects of poverty. Decent and affordable housing is a first step, an essential beginning to transforming the disgraceful, deteriorated, and violent conditions scarring our cities. Decent and affordable housing gives families dignity, self-respect, and the ability to improve their circumstances. Housing is not the solution to poverty in and of itself, but without a safe and healthy place to live, a family cannot begin to deal with the interlocking and complex problems plaguing it.

Sandtown-Winchester

Let me begin by expanding on this observation that while housing is the starting point for improving neighborhoods and lives, there is more that must be done. The affordable housing problems and programs we all struggle with exist in the larger context of deteriorating social conditions in thousands of neighborhoods across the country. Homelessness, joblessness, violence, crime, drugs, inadequate schools, lack of health care, all leave their dreadful mark on communities. It was Enterprise Founder Chairman Jim Rouse's concern about the downward spiral of conditions in the neighborhoods where we work that led The Enterprise Foundation to agree to participate in a unique partnership with Baltimore Mayor Kurt Schmoke and the residents of a West Baltimore neighborhood called Sandtown-Winchester.

Sandtown-Winchester is a 72 square block neighborhood with just over 10,000 residents, 99 percent of whom are African-American. The social realities and conditions in Sandtown are similar to those in many other inner-city neighborhoods:

- Half the residents live in poverty.
- Five out of six poor children live in single parent households headed by women. Ninety percent of births are to unmarried women.
- Almost three quarters of the housing stock is substandard. More than 670 vacant buildings are scattered throughout the neighborhood.
- Nearly half of the residents who can work are unemployed; an equal number are on public assistance.
- Students in neighborhood schools consistently perform well below State standards. Only 43 percent of Sandtown residents age 25 or older have completed high school.
- Armed robberies and rape occur at five times the rate in middle-income Baltimore neighborhoods. Drugs and crime are epidemic.
- Too many residents die of preventable and treatable diseases. Two and a half times as many Sandtown residents died of pneumonia and influenza in 1989 as in the rest of Baltimore; the rate of HIV infection is nearly twice that of the rest of the city.

Community Building in Partnership (CBP) was initiated in February of 1990 by Mayor Schموke with a directive to develop a program to totally transform all of the conditions cited above for the benefit of existing residents. The basic principle of this program is that **we do know what works**. Across the country, the know-how and capacity exist to make basic support systems work. Thousands of units of housing have been made decent and affordable for the lowest income people; inner-city schools have produced high-achieving students; job training programs have helped the unskilled find work; and prenatal care has helped even the poorest mothers have healthy babies.

Yet these efforts are so often isolated from one another. The lessons of these successes need to be applied in a comprehensive fashion over a sustained period of time to show that the quality of life in neighborhoods at the bottom of the economic scale can be literally transformed. The purpose of Community Building in Partnership is to transform all of the dysfunctional conditions and systems—from housing, education, health care, and employment, to human services, business development, and public safety—to enable all residents to achieve their highest potential.

The thinking behind Community Building in Partnership—that a holistic, comprehensive, community-driven approach is the only way to address the complex and intertwined problems that plague poor communities—is similar to the thinking behind the Empowerment Zones program and Assistant Secretary Cuomo's work to consolidate the planning requirements for the programs under his control.

It is important to note the Administration's emphasis on improving neighborhoods as well as offering residents mobility and choice. HUD is pursuing a two-pronged strategy to help *places* and *people*. Community revitalization and giving people broader choices where to live are not mutually exclusive. Some residents want to move out to the suburbs; others want to stay and rebuild their communities. Federal policy should embrace both options.

In Sandtown, most of the residents want to stay. After Sandtown residents participated in an eight month process to identify the neighborhood's most pressing needs and develop a vision of the transformation they wanted to see, work began on projects in eight areas: physical development, health care, education, family development, substance abuse, public safety, community pride and spirit, and employment/community economic development.

Mayor Schموke's office, The Enterprise Foundation, and the neighborhood residents have worked together under the umbrella of a nonprofit, Community Building in Partnership, Inc. to implement the plan developed by the residents of the neighborhood. To date they have implemented over 80 projects to address immediate needs in the neighborhood and to lay building blocks for longer-term systems change. These projects range from a 227-unit new townhouse project using HUD Nehemiah funds, to a door-to-door outreach program to provide prenatal care to all pregnant women, to the recruitment of over 100 block captains for Block Watch and Neighborhood Watch programs.

In general, most Federal, State, or city programs are not designed to be used together as part of a comprehensive strategy and it is a slow process to bring them together to transform a neighborhood. As you work on the housing reauthorization bill, I encourage you to think about housing programs in the larger context of the neighborhoods where they operate. Focus on how housing can be a piece of a broader strategy that simultaneously attacks all the dysfunctional systems at once. This means making programs flexible and responsive to local conditions.

HOME

The HOME program meets this test. It is a good example of a flexible Federal program that is just beginning to reach its full potential. Securing adequate funding for the HOME program should be a very high priority for you this year. The Senate Banking Committee has done tremendous work on the HOME program as part of the 1990, 1992, and 1993 housing reauthorization bills. As you know, the program originated from the recommendations of the National Housing Task Force in 1988 (co-chaired by Jim Rouse of The Enterprise Foundation) and was finally enacted in 1990 after a long and tortuous process that the Senate played a key role in.

While the previous Administration's hostility to any housing production program stifled the HOME program initially and caused the funding to sit unspent, you have done a great deal to improve the program in the 1992 and 1993 housing bills. HOME as currently constituted is now an effective contributor to the supply of affordable housing. The strength of the program is that HOME allows communities to choose which mix of housing activities—rehabilitation, new construction, or tenant-based assistance—best meets local needs. HOME can be the primary housing production program for the 1990's and beyond if it is funded at adequate levels.

The Administration's proposal to cut the funding for HOME this year is unfortunate. Secretary Cisneros and his staff have done a good job unleashing the potential of the HOME program. The consolidated regulations which were put out for comment last summer were much improved over earlier iterations. The HOME legislative changes which you just enacted make the program easier to use. Assistant Secretary Cuomo and his staff have done a good job of publicizing the new and improved program.

All new programs have a rough start-up phase, and to destabilize the funding for the HOME program just as jurisdictions and nonprofits are learning to use it does not make sense. HUD's partners in the HOME program need to be able to depend on the Federal Government's commitment to fund housing production for low-income Americans. Creating affordable housing is a long-term process, and as local government officials and nonprofits plan their housing activities for next year, they should be able to count on stable funding levels for HOME.

HOME is working to leverage local government and private resources to create affordable housing in communities all across the country. According to HUD, 70 percent of the HOME funds are used for rehabilitation, 20.5 percent are used for new construction, 6.5 percent for acquisition, and 3 percent for rental assistance. More importantly, jurisdictions have exceeded the income targeting requirements in the statute, with 42.3 percent of the rental units built with HOME serving people with incomes below 30 percent of area median income and 25.9 percent of the homeowners assisted having incomes below 30 percent of median.

Sixty-six percent of the rental units built with HOME serve Americans with incomes below 50 percent of median and 62.3 percent of homeowners assisted with HOME have incomes below 50 percent of median. All totaled, as of March 31, \$1,075,713,732 in HOME funds have been committed and leveraged with an additional \$1,440,412,148 in other funds for a total of \$2,516,125,880 committed to HOME projects.

Nonprofits and HOME

As you know, the HOME statute requires 15 percent of HOME funds be set aside for Community Housing Development Organizations (CHDO's). This was an important policy choice that Congress made to spur the growth of a vibrant, constructive force in our cities. Over the past decade, the nonprofit housing industry has expanded significantly both in production capacity and in sophistication. Nonprofit housing groups can now be found in all fifty States, in urban and rural areas from Portland, Maine to Portland, Oregon. Although there is no precise count, it is estimated that there are 3,000–5,000 community-based nonprofits working on low-income housing. Collectively, nonprofits have renovated hundreds of thousands of homes and apartments for low-income Americans.

Community-based nonprofits are sensitive to the unique needs of their local neighborhoods and their sustained commitment to the community makes them especially suited to undertake community development activities. In general, nonprofits work in areas largely neglected or abandoned by the for-profit sector for various reasons, such as the need to link social services to the housing, the small scale of the housing development, or declining real estate values. Nonprofits have a different set of incentives and thus can do the work no one else wants to take on.

Nonprofits use a wide range of tools besides the HOME program, including the Low-Income Housing Tax Credit, the Affordable Housing Program run by the Federal Home Loan Banks, CDBG funds, the RTC's Affordable Housing Program, the HOPE 3 program, State and local housing programs, and funds supplied by chari-

table foundations or religious institutions. We are hopeful that the recently enacted multifamily property disposition program will help nonprofits acquire, rehabilitate, and manage some properties currently languishing in the FHA inventory to create a permanent housing resource for low-income Americans. We believe your efforts on that legislation will yield good results.

Among all of these different tools available to nonprofits, HOME is the centerpiece of the nonprofit housing finance system because it can provide the crucial gap financing for many different types of projects. The 15 percent setaside in the HOME program has had tangible successes in many cities. Here are some examples of HOME projects that groups affiliated with Enterprise have built:

- The Cleveland Housing Network is completing a project of 180 units scattered around the city which, because of \$2.5 million in HOME funds, can be leased to families earning less than 35 percent of area median income. Rents for this project will range from \$160 to \$210 per month for one to four bedroom units.
- Charleston Affordable Housing in Charleston, South Carolina, has built a 10 unit, scattered site rental project offering an array of supportive services to homeless single parents with children. The project was financed with a \$125,000 HOME grant, CDBG, a Federal Home Loan Bank grant, and a loan from First Federal.
- In New York City, El Barrio's Operation Fight Back is developing the 77 unit El Barrio Renaissance Apartments to serve persons with special needs, including the homeless. Financing for the \$7 million development includes \$3.6 million in city HOME funds available for construction financing and then upon completion of the construction, these funds will be converted to a second mortgage. The rest of the debt financing for the project will come from New York City's Housing and Preservation Department. Low-Income Housing Tax Credits will be used to provide the equity to complete the financing.
- Topeka City Homes of Topeka, Kansas, is acquiring and rehabilitating 57 vacant, single-family homes to rent to very-low-income families. The city awarded the nonprofit \$780,000 in HOME funds for soft second mortgages which are deferred and carry no interest. Topeka City Homes is averaging total development costs of \$29,000 per unit, yielding rents of \$253 per month.
- In Marietta, Georgia, Progressive Redevelopment, Inc. and Cornerstone Housing Corporation (an Enterprise subsidiary) are using \$715,000 in HOME funds loaned at 3 percent by the Georgia State Housing Finance Agency to buy the 112 unit Country Pines Apartments from Freddie Mac's multifamily portfolio. All of the units will serve families below 60 percent of median income and half of the units will be for families below 50 percent of median. Progressive Redevelopment will manage the property and offer social services to the residents.

All of these projects show HOME working as Congress intended. HOME funds are used to leverage many other sources of funds to make scarce Federal dollars go further to serve very poor people. HOME projects vary widely depending on local housing markets, which is exactly as it should be. Local partnerships are formed to meet identified local housing needs.

There probably are further legislative refinements which could be made to the HOME program, but I recommend that you make a priority of urging your colleagues on the Appropriations Committee to fund this program *at least* at last year's level of \$1.275 billion. This year, adequate funding for HOME is more important than perfecting amendments.

Capacity Building for Nonprofits

The success of the HOME program shows that bolstering the ability of community-based nonprofits to deal with the problems in their communities is sound policy. The term used in the community development field to describe the process of developing effective nonprofits is "capacity building." This is an unfortunate term because it sounds amorphous and vague. While this jargon is not the best, capacity building is actually a straightforward and tangible process.

The purpose of capacity building is to create enduring institutions which will be a positive, stable force in their communities. Government support for capacity building creates viable entities which can then use a wide array of resources to carry out their public purpose. Thus, Government funding is leveraged and multiplied with many other sources of funding to accomplish social goals.

Capacity building is an umbrella term which encompasses many different activities from financial support to technical assistance. The Enterprise Foundation does different sorts of capacity building activities depending on what a nonprofit needs. Nascent groups need advice on how to set up a board of directors, a business plan, an accounting system, and a fundraising plan. More seasoned groups need advice on how to increase their housing production by using innovative approaches. The

Enterprise Foundation has had to meet different needs over the years as nonprofits have gotten more sophisticated.

Capacity building also includes funding operating expenses for nonprofits, which is often the most difficult money for nonprofits to raise. Administrative expenses are not appealing to funders, yet without funding for a project director, telephones, and a copier, a nonprofit can't build an SRO for the homeless. Paying operating expenses for a new nonprofit or a nonprofit that has not previously focused on housing can have great benefits for a community as an effective, vibrant force for positive change is created.

For example, in Columbus, Ohio, the Columbus Housing Partnership (an Enterprise affiliate which was set up to foster the work of Columbus' nonprofits) worked with St. Stephen's Community House to train its staff to be housing developers. St. Stephen's Community House had been a social work agency, with expertise about the social problems in the community but no experience with housing. The Columbus Housing Partnership offered them technical assistance and operating support to hire one staff member and within one year, they had rehabilitated 24 units of housing on one street. The development, named Mwanza Place, met more than just housing needs because capacity building enabled a nonprofit who knew the neighborhood and its problems intimately to become an affordable housing provider. Mwanza Place provides a comprehensive, tenant-driven program of supportive services to its residents.

Portland, Oregon, had only one productive nonprofit in 1990. Since then the Neighborhood Partnership Fund (a local umbrella group, similar to the Columbus Housing Partnership described above) has trained three existing nonprofits and four new ones. These seven emerging nonprofits have completed 56 units, have 74 units under construction, and have another 121 units in predevelopment. Once groups understand the development process, their production numbers grow quickly.

The Cleveland Housing Network (CHN) is another good example of capacity building. When Enterprise started working with CHN in 1985, they were struggling each year to rehabilitate a dozen houses for very-low-income families, solely using CDBG funds. Today, CHN has celebrated the production of its 1,000th house, is fully computerized, and has learned to use the Low-Income Housing Tax Credit and attract private financing as well as continuing to use CDBG. CHN is an essential part of Cleveland's plans for its future.

There are many more examples like these from our work. Funding for capacity building should not be seen as an alternative to funding the construction of units of affordable housing. **Capacity building leads to the production of units.**

Congress has effectively dealt with concerns that Community Housing Development Organizations (CHDO's) could become unduly dependent on operating support from the HOME program. As you know, local jurisdictions may allocate up to 5 percent of their HOME allocation for operating support to CHDO's, and CHDO's may receive 50 percent of their budget in HOME operating support or \$50,000, whichever is greater. This provision allows small CHDO's to get enough funding to hire staff, but it prevents larger CHDO's from being completely dependent on HOME operating support. In addition, there is accountability at the local level for the choices made in which groups get operating support.

Operating support for the right nonprofits is a very effective Federal investment. The Department of Housing and Urban Development ought to do everything it can to encourage local jurisdictions to spend the full 5 percent allowed under HOME for nonprofit operating support, or Congress could make such an action mandatory.

The Enterprise Foundation is also concerned that the operating support and technical assistance money under section 233 of the HOME program has been delayed at HUD headquarters. Section 233 authorizes funding to provide technical assistance and pass-through funds to qualified nonprofits. These resources have enabled the nonprofit system to respond effectively to the problems of the poorest and most distressed neighborhoods. National and Statewide intermediaries that deliver section 233 funds help to teach successful practices, develop the abilities of nascent or emerging nonprofits, and help the Federal Government to deliver funds where they are most needed and will do the most good. HUD should get this money out because nonprofits in the field are waiting to see if they can go ahead with their projects.

Community Viability Fund

The operating support programs for nonprofits in current law all have specific restrictions and limitations. Section 233 funds and HOME operating support are only for CHDO's as defined in the HOME program. Operating support to nonprofits through the National Community Development Initiative is only available in 23 cities. For this reason, the Community Viability Fund which has been proposed by Secretary Cisneros has real promise.

The Community Viability Fund offers the opportunity to fund promising non-profits that don't fit into the parameters of any of the existing operating support programs. Many of Secretary Cisneros' various community development initiatives—the consolidated plan proposed by Community Planning and Development and Empowerment Zones and Enterprise Communities, for example—depend on informed, energized citizen activism at the local level.

Our cities aren't going to be revitalized by policy directives from within the Washington Beltway. Neighborhoods are reborn when the people who live there are able to take matters into their own hands and work out solutions to local problems. The Community Viability Fund gives Secretary Cisneros the ability to fund the local talent to solve the problems plaguing low-income neighborhoods. It is essential to HUD's place-based community revitalization strategy.

It is appropriate for Congress to set broad programmatic guidelines, and then grant the HUD Secretary the authority to fund promising community groups. The Community Viability Fund would give HUD the ability to be an effective partner in community-driven neighborhood revitalization initiatives. Most Federal programs are oriented toward individual needs or specific projects, and this can make them difficult to use as part of a holistic, comprehensive strategy to rebuild a neighborhood. The Community Viability Fund could fill this gap, and HUD deserves tremendous credit for such innovation. The community-based nonprofit movement is a resource for our neighborhoods that merits a wise Federal investment.

Other Financing Tools

In addition, the Federal Government should foster the creation or improvement of financing tools that can be used to build low-income housing. Obtaining long-term loans from private financial institutions for community development projects continually proves to be a challenge for nonprofit housing sponsors. In many communities where Enterprise works, lenders are willing only to make mortgage loans for periods as short as five to ten years, or else they are not willing to lend at all. Because multifamily lending tends to be unconventional, and there is no clear standard for underwriting, banks frequently assume that such lending is too complicated and too risky to undertake. In reality, multifamily lending can be a profitable activity.

Both the Federal Government and The Enterprise Foundation have taken steps to fill this gap. The Low-Income Housing Tax Credit, for example, has been one of the most important tools available for nonprofit organizations to develop rental housing. The Tax Credit encourages corporations to invest in the acquisition, rehabilitation, and construction of low-income rental properties by providing tax benefits to investors. The equity that can be raised with Tax Credits typically finances about one-third of the total development cost of a low-income rental project.

In another effort to meet the need for mortgage financing for the development of affordable multifamily housing nationwide, Enterprise recently announced the formation of Enterprise Mortgage Investments, Inc. (EMI), a new organization that will serve as a community lender to provide mortgage financing to community-based housing organizations. Fannie Mae has committed \$150 million to EMI's lending program, which will offer developers first mortgages on multifamily rental properties that qualify for the Low-Income Housing Tax Credit.

EMI's lending program is aimed at streamlining development financing and minimizing charges to nonprofit, community-based developers. EMI is designed to provide mortgage loans to entities that may not have access to other sources of mortgage financing or to provide permanent financing in conjunction with existing mortgage sources—such as commercial banks and bank consortia—that would prefer to limit their affordable multifamily financing activities to short-term construction loans.

Improving FHA

The provision of adequate mortgage insurance or other credit enhancements would go a long way toward bringing banks back into the business of affordable housing lending. In this respect, more needs to be done to make FHA itself an effective force in the housing finance arena. With extraordinarily long processing periods, cumbersome paperwork, and difficulty in finding financial institutions that will make FHA insured loans, FHA has become inaccessible for many productive nonprofit developers. This is unfortunate because FHA could fulfill an important niche in the affordable housing finance system.

In cities in which Enterprise works that have non-Federal multifamily insurance or credit enhancements available, nonprofit developers' success and productivity stands in stark contrast to those in cities without such resources. For example, Enterprise's New York City program has been very successful because of the State and city's long-standing commitment to developing low-income housing. In our New York

program's first year (1987), we were able to assist in the development of 1,000 units of housing because a bridge lender could insure its short-term loans through New York City's Real Estate Mortgage Insurance Corporation (REMIC). Without this insurance tool, in addition to New York State's mortgage insurance products, multi-family lending in New York would be vastly reduced.

HUD staff should be commended for their recent efforts to improve the FHA insurance program. Recently announced changes to reduce the up-front premiums on single-family FHA insurance and to streamline the 203(K) program for purchase and rehabilitation of single-family homes demonstrates the Office of Housing's commitment to making FHA a viable tool for low- and moderate-income homebuyers.

Additionally, HUD's proposal within the "Housing Choice and Community Investment Act of 1994" to make FHA mortgage insurance available on special terms to low- and moderate-income homebuyers in designated revitalization areas would enhance locally-driven strategies to turn around deteriorating neighborhoods. Providing incentives for families to purchase homes in targeted communities could be a tremendous stabilizing force for distressed neighborhoods with a significant stock of single-family homes, like Sandtown-Winchester. To make such opportunities successful for first-time homebuyers, HUD wisely has proposed an increased commitment of Federal funding for home ownership counseling.

Because the Federal Government will never be able to provide some types of financing on its own, HUD's efforts to form partnerships are constructive. Enterprise supports HUD's legislative proposal to establish Innovative Affordable Housing demonstrations to increase home ownership opportunities in partnership with such entities as Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. We support this proposal with the same enthusiasm we have for the recently authorized Section 8 Community Investment Demonstration program, the Risk-Sharing Pilot program with housing finance agencies, and the National Community Development Initiative. Through such partnerships, HUD is making State, local, and private sector entities major players in Federal housing and community development activities. Enhanced commitment from other participants is essential to creating a stable and productive financing system that will increase the production of nonprofit housing sponsors.

Enterprise has a strong concern about the availability of functional mortgage insurance or credit enhancements for multifamily rental housing. We understand FHA's current emphasis on the single-family program and multifamily property disposition, but we are hopeful that in time, HUD will focus on improving the FHA multifamily insurance programs.

Expanded Secondary Market Activity

The interdependent nature of the housing finance system makes it inevitable that whatever the secondary market, or more specifically Fannie Mae and Freddie Mac, is doing dictates the actions of other system participants. Because lending institutions benefit from their ability to sell loans they have originated to the secondary market, lenders are likely to originate only what they can sell in exchange for more liquidity.

The secondary market revolutionized single-family mortgage lending by encouraging the creation of a standardized mortgage loan and allowing lenders to make mortgage loans in much higher volumes. According to the National Task Force on Financing Affordable Housing, there is a direct correlation between the growth of the single-family secondary mortgage market, which has virtually developed over the past 30 years, and the health of the single-family lending industry. The Task Force report explains, "In 1972, only \$27 billion of one-to-four family mortgages were sold to the secondary market; in 1990, that number had reached an annual volume of \$405 billion. As a result, there is now a large, stable, and relatively inexpensive source of private capital to finance single-family mortgages, which has endured despite the economic and tax cycles of the 1980's."

Although single-family housing and multifamily housing are two distinct products, it is important to apply the broad lessons we have learned from single-family housing activity to the multifamily finance system. In this respect, there is an obvious need to create a more viable secondary market for multifamily housing. It is essential for Fannie Mae and Freddie Mac to expand their purchases of multifamily mortgage loans and to serve other mortgage originators and nontraditional homebuyers. Fannie Mae recently announced its intention to do just that as part of its trillion dollar goal by the year 2000.

We encourage the Subcommittee to oversee the implementation of and compliance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and to utilize the knowledge and resources of the GSE's to fulfill the goals of Federal housing policy. We commend Fannie Mae for its very aggressive initiative in

low-income housing and both Fannie Mae and Freddie Mac for exceeding their low- and moderate-income mortgage purchase goals in 1993 and increasing their central city activity. However, more can be done, particularly among minority homebuyers. Statistics show only a small amount of secondary market mortgage purchases are those of African-American or Hispanic borrowers.

Conclusion

Thanks to the hard work of the Congress in recent years and the new leadership at HUD, the tools that nonprofits need are largely in place. What needs to be done is to streamline the system we have and to increase the funding for programs like Section 8 which serve people with the lowest incomes. HUD's budget proposal substantially increases the number of new families receiving rental assistance to 70,000. This nearly doubles the number from the year before, but still fulfills only a small fraction of the unmet housing needs in our country. HUD estimates that over 5 million households with incomes below 50 percent of area median are paying more than half of their income for rent, or live in substandard housing, or both.

Your task as you reauthorize Federal housing programs is to build on what works in the current system, clear out impediments, and secure adequate funding. Nonprofits play an important role in the current system, and can be made a more effective force to rebuild our communities if some improvements are made in the existing programs and policies.

It is not right that a wealthy Nation should abandon its poorest neighborhoods—urban and rural—with a shrug that nothing can be done. We know what needs to be done. Every day, community-based nonprofits, city governments, churches, hospitals, and private businesses participate in a wide variety of projects that are working to turn lives around. What these local partners need is adequate funding from the Federal Government, and the ability to tailor programs to unique local conditions.

We look forward to working with you on these issues, and thank you for the opportunity to testify.

PREPARED STATEMENT OF CUSHING N. DOLBEARE PRESIDENT, NATIONAL LOW-INCOME HOUSING COALITION

Housing Needs and HUD Proposals

I am Cushing N. Dolbeare, the founder and current interim President of the National Low-Income Housing Coalition (NLIHC) and Executive Secretary of our affiliated organization, the Low-Income Housing Information Service (LIHIS). The Coalition is a membership organization that, in the words of our charter, "educates, organizes, and advocates for decent housing, suitable environments, adequate neighborhoods, and freedom of housing choice for all low-income people." Our two organizations also work in collaboration with some 30 State housing and homeless coalitions on issues of low-income housing policy and are actively involved in monitoring State and local activities under the key provisions of the Cranston-Gonzalez National Affordable Housing Act, particularly those relating to Comprehensive Housing Affordability Strategies and to the HOME Housing Partnership program. I also serve as chair of the Federal Task Force on Lead-Based Paint Hazard Reduction and Financing established by title X of the Housing and Community Development Act of 1992.

The Coalition appreciates the opportunity to testify before you today on low-income housing needs and the proposals contained in the Housing Choice and Community Investment Act of 1994. Because of the complexity of a number of the proposals and our need to obtain feedback from our members and our colleagues in the field, we also request an opportunity to file supplementary comments for the record after we receive this information.

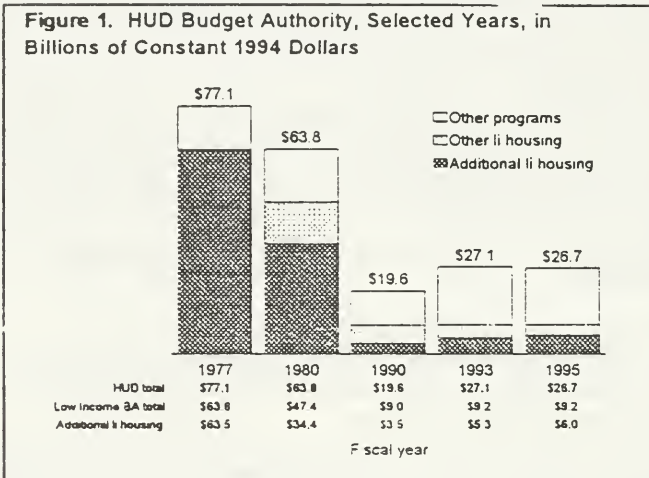
Housing Needs and Federal Housing Assistance

There are now approximately 5.5 million households living in federally subsidized low-income housing. Most of them live in housing subsidized by HUD programs, but about 500,000 live in housing subsidized by the rural programs of the Farmers Home Administration. These units are the total amount of housing achieved by Federal low-income housing programs over more than half a century, beginning with the emergency and public housing programs launched in the depression of the 1930's.

For every very-low-income household now living in subsidized housing, there is another unsubsidized very-low-income renter household with a "worst case" housing need. They are either paying more than half their incomes for housing costs, or liv-

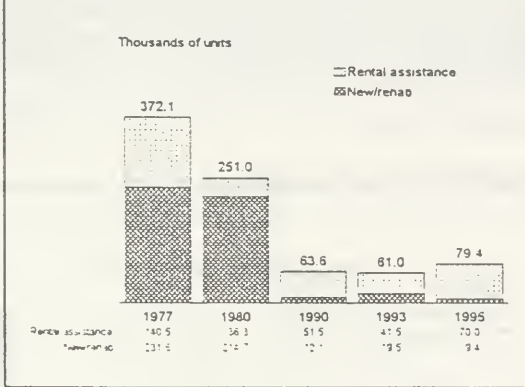
ing in seriously substandard housing, or both. And for every "worst case" household, there are four more low- or moderate-income households for whom the goal of decent, affordable housing has been unattainable. These needs are described in more detail in the attached Appendix.

For the last 20 years, Federal housing authorizations have been shaped less by the extent of housing needs, which have been increasing, than by Federal budget rules and constraints, which have been tightening. Measured without adjusting for inflation, HUD was the *only* Federal department with lower budget authority in 1993 (the most recent year for which actual figures are available) than it had had in 1980. Every other Federal department's budget was increased; HUD's decreased by 26 percent, from \$35.9 billion to \$26.5 billion. Measured in constant 1994 dollars, HUD's budget dropped by 57 percent, from \$63.8 billion in 1980 to \$27.1 billion in 1993. HUD's request for \$26.5 billion in budget authority for fiscal year 1995 is only 42 percent of its 1980 appropriation in inflation-adjusted dollars.



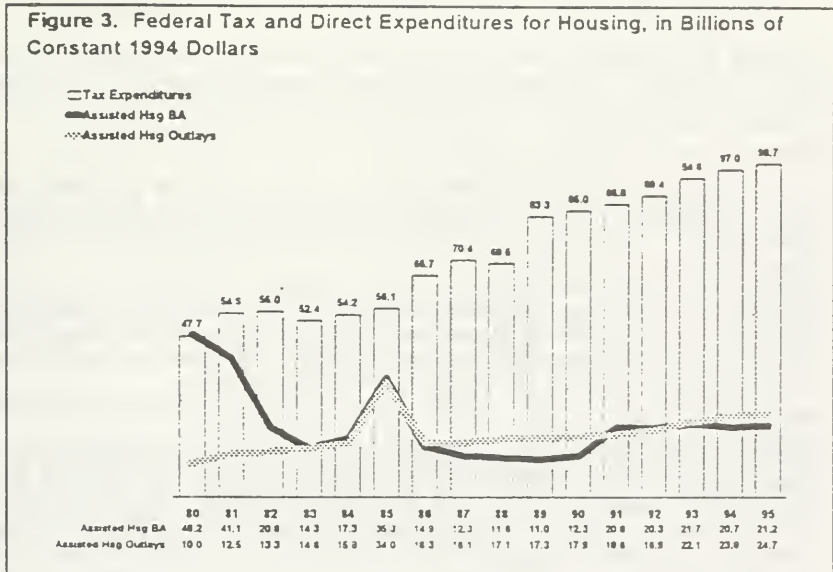
The cuts in HUD budget authority came primarily from low-income housing and are reflected in the number of additional low-income units provided. The 79,400 incremental units proposed for 1995 constitute only 21 percent of the 372,100 additional units reserved in 1977. In addition to the drop in subsidized units, there has been a marked reduction in the number of new or rehabilitated units. In 1977, 62 percent of incremental units were new or rehabilitated. In 1980, the proportion was 86 percent. By 1990, the proportion had dropped to 21 percent.

Figure 2. Additional HUD Low Income Housing Reservations, Selected Years



While the rules governing authorizations and appropriations have limited spending on low-income housing programs, no such constraints have been applied to housing-related tax expenditures. Thus, housing-related tax expenditures, which cost the Treasury \$25.3 billion in 1977, reached \$47.7 billion by 1980. They now stand at \$97.0 billion, and are expected to reach \$98.7 billion in 1995. The mortgage interest deduction alone is estimated to cost the Treasury \$54.8 billion in fiscal year 1995. This is more than double low-income housing outlays and about 30 percent of the estimated 1995 Federal deficit.

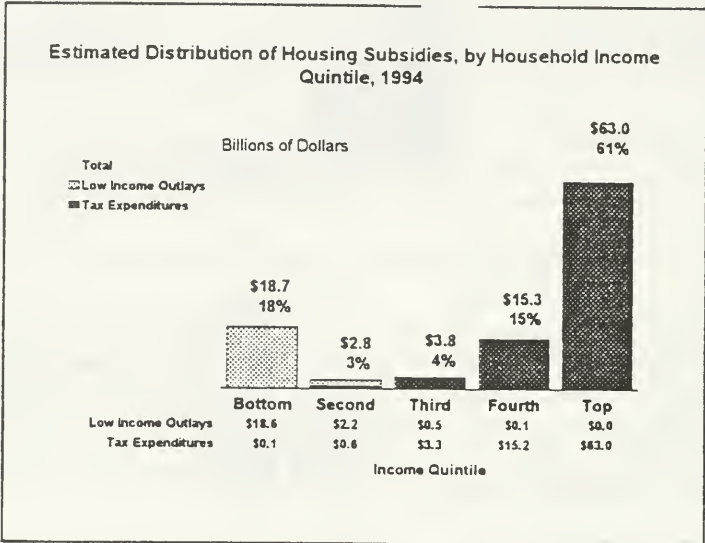
Figure 3. Federal Tax and Direct Expenditures for Housing, in Billions of Constant 1994 Dollars



The result of this pattern of Federal spending for housing is that for every dollar of low-income housing outlays this year (\$23.8 billion), the Treasury will lose \$4 through housing-related tax expenditures (\$97.0 billion). Eighty-seven percent of these expenditures, \$84.4 billion, will be the cost of homeowner deductions: mort-

gage interest, property taxes, and deferral or exclusion of capital gains on sale of a home.

Moreover, the pattern of these subsidies is highly regressive. For each dollar benefiting a household in the bottom fifth of the income distribution, at least three dollars will go to a household in the top fifth. In all, \$19 billion, or 18 percent of all housing expenditures, will benefit people in the bottom fifth of the income distribution, while \$63 billion, or 61 percent of all housing expenditures, will go to households in the top fifth of the income distribution.



Cutting the amount of homeowner deductions benefiting the top fifth of the income distribution by less than half could generate enough money for low- and moderate-income housing programs to make the goal of access to decent, affordable housing a reality for all low- and moderate-income households.

Proposed Federal Housing Trust Fund

The National Low-Income Housing Coalition is now embarking on a public education and advocacy effort to bring about the establishment of a Federal Housing Trust Fund by limiting (but not repealing) some of the tax benefits going to people in the top fifth of the income distribution, and using the savings to meet low- and moderate-income housing needs.

The long-range objective of the Housing Trust Fund is to provide a vehicle to ensure that every low-income household and individual who has a demonstrated need will receive housing assistance. It supplements and complements present supply-oriented programs, including public housing, HOME, the low-income housing tax credit, and the rural programs of the Farmers Home Administration.

The Coalition is developing a specific proposal which will embody the following principles:

- The Trust Fund would be used for rental and home ownership assistance, for increasing and improving the housing supply, and for community-based work to defeat segregation and other barriers to affordable housing. The Housing Trust Fund will be targeted first at the needs of very low-income people, and will be a flexible source of funds usable for both tenant-based and project-based assistance, as well as assistance for fee simple homeowners, co-op members, and others, and for production and rehabilitation of permanently affordable housing for both renters and owners.
- Fair housing and counseling activity by community-based organizations will be an integral component of all Trust Fund activity.
- Housing-related tax deductions would be carefully modified so that: (1) Only taxpayers at or near the top of the income distribution should be affected. Taxpayers

in households in the bottom four fifths of the income distribution would not be affected. (2) The proposal should not penalize taxpayers living in high housing cost areas, or produce significant disincentives to home buying or housing mobility. (3) The proposal should not drastically and suddenly reduce the value of housing currently occupied by homeowners. (4) The proposal should provide sufficient income when fully phased in to support the estimated cost of a full-scale Housing Trust Fund, and be designed to fit within current Congressional budget rules.

- The Trust Fund would also be used to substantially strengthen the community-based organizations, particularly those involved in fair housing, counseling, and in enforcement, litigation, and advocacy on behalf of greater housing opportunity for low-income people.

Table 1. Federal Housing Expenditures and Benefits, 1994

Estimated federal housing expenditures, in millions of dollars

	Income Quintile					All
	Lowest	Second	Third	Fourth	Top	
Estimated quintile income limit	\$13,100	\$25,500	\$38,200	\$60,600	—	—
Mortgage interest	\$52	\$380	\$2,117	\$9,753	\$39,533	\$51,835
Property taxes	\$15	\$96	\$541	\$2,397	\$10,816	\$13,865
Capital gains	\$20	\$133	\$747	\$3,375	\$14,421	\$18,695
Investor	\$13	\$90	\$503	\$2,274	\$9,719	\$12,600
Total, tax expenditures	\$100	\$699	\$3,909	\$17,799	\$74,488	\$96,995
Low income housing outlays	\$20,786	\$2,416	\$504	\$120	\$14	\$23,840
Total housing costs	\$20,886	\$3,115	\$4,413	\$17,919	\$74,502	\$120,835

Estimated households receiving housing benefits, in thousands

	Income Quintile					All
	Lowest	Second	Third	Fourth	Top	
Tax benefits	124	707	2,992	8,471	16,127	28,422
Housing assistance	3,567	829	346	165	47	4,954
Total	3,690	1,536	3,338	8,636	16,175	32,771
Percent of quintile	20%	8%	18%	46%	87%	—
Average amount per household receiving subsidy	\$5,660	\$2,027	\$1,322	\$2,075	\$4,606	\$3,620
Average subsidy per household in quintile	\$1,121	\$167	\$237	\$962	\$3,999	\$1,297

Only an effort at this scale will really address our low- and moderate-income housing needs. Continuing at the present level of effort, or something similar to it, will fall far short of what is required. HUD, perforce, is trying to do more with less; but whatever improvements HUD and its partners are able to make will fall far short of achieving the Department's goals without substantially more resources.

HUD's Specific Proposals

The Coalition generally supports the goals and priorities articulated by HUD, but we do not believe either its budget or the legislation now before you will get us there. Moreover, we are concerned that a number of the Department's initiatives, particularly the proposed consolidation of the CHAS and CDBG plans and the HOME, CDBG, and other applications and performance reports (which HUD proposes to be done by regulation), will—despite good intentions—move us backward rather than forward.

Proposed Authorization Levels

The authorization levels proposed in the bill reflect the proposed HUD budget, which cuts significant and important programs in order to make room for new innovations and priorities. We urge this Committee to support the expansions and reject the cuts. Specifically, we make the following recommendations:

1. *Support or increase the authorizations requested by HUD to increase funds for programs serving households with worst case housing needs.*

More than five million households with "worst case" housing needs are homeless, or they are very low-income renters paying more than half their incomes for housing or living in housing that is so bad it endangers their health or safety—or sometimes both. The increases in funding for rental assistance will enable 70,000 of these households to find decent housing they can afford. It will also open up housing built or rehabilitated with HOME or Low-Income Housing Tax Credit subsidies—which are too shallow in themselves to serve this income group. Indeed, we urge the Committee to increase the authorization for rental assistance to fund at least an additional 100,000 units and to make room within this authorization for continuation of the foster care program, which was eliminated by the Administration.

We also support the proposed increases in fair housing and counseling and urge that they focus on serving households with worst case needs. The concept of residency choice should be expanded to make clear that families wishing to remain in their own neighborhoods will also be assisted.

Finally, we support the expansion of targeted assistance for homeless families and individuals, even though we have major concerns about the HUD proposal to consolidate present McKinney Act programs as well as the obvious inadequacy of permanent housing, the most pressing need of homeless people.

2. *Restore the proposed cuts in preservation, public housing, HOME, and housing for the elderly.*

Investments in programs that serve the poor should not come at the expense of other programs for the same constituency. The cutbacks for the preservation of subsidized housing with expiring use restrictions (LIHPRHA) and public housing development, modernization, and operating subsidies are particularly troubling. So are the proposed cuts in HOME and housing for the elderly.

The LIHPRHA cut, providing no funds whatsoever for fiscal year 1995 on the assumption that carryover will be adequate, is one of the largest cuts in the entire HUD budget. There is substantial evidence that HUD has underestimated the need for additional funds in fiscal year 1995, since carryovers are insufficient to fund applications already in the pipeline.

The treatment of public housing illustrates the dangers of the "do more with less" approach. A series of untried initiatives attempt to give the program more flexibility and to move toward greater income mix. But neither current tenants nor the hundreds of thousands of families on public housing waiting lists are well served by reductions in funds for development, modernization, operating subsidies, and distressed public housing. We strongly support initiatives to disallow earned income to eliminate the strong current disincentives to work. Nor do we object to adding a preference for working households to the current list of optional local preferences, although we would strongly object to making it a Federal preference. But this new preference is a weak rationale for cuts in operating subsidies which will interfere with the HUD's own priority for improving public housing.

The cut in the HOME program comes just as it is beginning to hit its stride. Given the needs described above, it is critical to maintain and increase the momentum HOME has established.

Half (49.8 percent) of all elderly renter households with housing problems have incomes below 30 percent of median, according to tabulations of 1990 census data prepared for use by participating jurisdictions in developing their CHAS's. Another 29.6 percent have incomes between 30 percent and 50 percent of median. This is 2.1 million households, or 40 percent of the 13.3 million elderly renter households in 1990. HUD is right that elderly renters are somewhat less likely than other households with comparable incomes to have housing problems—but that is an argument for increasing overall housing assistance levels, not for cutting the elderly.

3. *Reject "reforms" which aim to decrease spending but will undermine program goals and effectiveness.*

The proposed HUD legislation is replete with program changes or "reforms." Many appear solely intended to save money, at significant cost to their ability to meet low-income needs. Among those changes which particularly concern us are:

- The proposal to cap LIHPRHA costs at 100 percent of the applicable Fair Market Rent (FMR). This directly contravenes HUD's major goal, which we support, of ending economic and racial isolation. The projects which are above FMR's are those in desirable locations and of high quality—just the ones which should get highest priority for preservation for low-income people. Similarly, we are concerned at the proposed cap on LIHPRHA appraisals, which we fear will have a similar impact.

- HUD's intention, which does not require legislation, to reduce Fair Market Rents to the 40th percentile of gross rents paid by recent movers. Similarly, the voucher/certificate merger proposal would reduce tenant opportunities by allowing PHA's broad discretion to set their own payment standards, capped at the fair market rent, but with no floor, while allowing tenants to pay up to 40 percent of income for housing.
- Relaxation of the one-for-one replacement requirements for public housing units eliminated by modernization or in severely distressed projects.

The "ConPlan" (CHAS/HOME/CDBG Plan and Application Consolidation)

The legislation before you does not, except indirectly, address HUD's announced plan to consolidate the CHAS/HOME/CDBG/Homeless program plans, applications, and reports. Yet this change, which the Department proposes to implement by regulation, has serious implications for the capacity of HUD's public and private partners to carry out their responsibilities and for the wise use of Federal housing, homeless, and community development assistance.

In title I of the proposed legislation, HUD recognizes the need for a separate planning and public participation process for homeless programs. At the same time, it appears to be effectively abrogating such a process for housing.

While HUD has consulted widely in developing its proposals, it has also moved ahead on a far too rapid timetable, stating that the new approach will take effect in fiscal year 1995. State and local jurisdictions are now beginning their planning process for 1995 with only the most general guidance, still in draft form. In the absence of changes in the current rules, we have heard that jurisdictions are using the inadequate language of the draft concept paper for guidance in beginning their planning processes.

The proposed rule implementing the "ConPlan" has yet to be published for comment. We have been told both that it will be a "barebones" rule, simply repeating and not going beyond statutory requirements and that it will address some of the concerns we and others have expressed about citizen participation, linkage of needs and program priorities in a meaningful way, and fair housing. We have been told that the ConPlan rule will not contain a fair housing component and that the fair housing plan which will be required by a rule in preparation by FHEO will not be available to the public for citizen review and comment, nor need it be submitted to HUD. A HUD official at a recent HUD conference recommended that interested parties file FOIA requests to obtain State and local fair housing plans. Similarly, we have been told that HUD area offices will be given broad waiver authority and that jurisdictions will be able to negotiate the form and content of their plans with these offices.

HUD's approach to consolidation appears to diminish the role of the CHAS to that of an application for HUD housing funds. It is no longer viewed as the comprehensive process of identifying needs and priorities and mobilizing Federal, State, local, and private resources to address them that was envisaged when the National Affordable Housing Act was adopted.

We urge the Committee to review carefully the appropriateness of the proposed consolidation for three reasons. First, the consolidation undermines the Congressional intent behind the 1990 Act to create a comprehensive and discrete process for planning and addressing low-income housing needs. Second, the proposed consolidation is silent on the role of fair housing in developing affordability strategies. This silence is all the more conspicuous because of the Administration's recognition of the link between residential racial and spacial segregation and the lack of safe, decent, and affordable housing opportunities for people of color. Third, by altering and diminishing the central and discrete role of the CHAS, the proposal intrudes on Congressional authority over these planning and, by implication, resource allocation issues. We ask that the Congress take up these issues in the context of the housing reauthorization bill and, unless these concerns are adequately dealt with, that the regulations be disapproved.

Fair Housing

We commend the emphasis in the Department's goals and in this legislation on expanding housing opportunities. We strongly support these goals and objectives and hope to submit more detailed comments when we have had an opportunity to analyze their potential effectiveness.

Lead Paint Hazards

The Coalition strongly supported title X of the 1992 Act, and now supports the proposal for a Lead Abatement Trust Fund. We hope the Congress will follow the lead of the Subcommittee on Health of the House Ways and Means Committee and

include such a dedicated trust fund, currently proposed at the level of \$450 million annually, in pending health care legislation.

The presence of lead paint is the most urgent housing quality problem facing low-income families with young children. Almost three quarters of the 2.5 million renter households with children under six living in housing built before 1950 are poor (45 percent) or near-poor (27 percent)—1.8 million households in all. In addition, 34 percent of the 2.1 million owner households with children under six living in pre-1950 housing are poor (12 percent) or near-poor (22 percent)—0.7 million in all. (Based on analysis of raw data from the 1991 American Housing Survey.) Unless abated or made safe, housing built before 1950 is likely to have unacceptable levels of lead paint on exposed or friction surfaces, and dangerous levels of lead dust.

In the face of this situation, HUD requested, and got, rescission of the additional \$50 million Congress appropriated for lead paint hazard abatement for fiscal year 1994. HUD is now proposing authorizations at the current level, \$100 million, for 1995 and 1996.

HUD does not yet appear to recognize that lead hazards cannot be addressed just through its Office of Lead-Based Paint Abatement and Poisoning Reduction. The draft ConPlan concept paper, for example, the only publicly available description of the requirements, contains only one sentence on lead-based paint hazards. It advises consultation with local health and welfare officials to obtain data on poisoning and hazards. There is no mention of identification of pre-1950 (or pre-1978) units with physical problems which are or may be occupied by young children. There is no mention of the importance—and requirement in some instances—that lead hazards be abated in the course of federally funded rehabilitation. There is no warning of lead hazards that may be created by improper rehab procedures in hazardous buildings.

Nor, in the consolidation of the certificate and voucher programs, is any attention paid to the importance of better enforcement of current housing quality standards which prohibit peeling paint. Nor, either there or in the fair housing opportunity proposals, is there any mention of possible priorities for counseling and assisting families with young children to use their rental assistance to obtain lead-free, post-1978 housing.

Conclusion

We reiterate our appreciation for this opportunity to present our views and look forward to working with you and your staffs as you consider the issues raised by this legislation and HUD's mandate and priorities. We plan to continue our evaluation of HUD's proposals and hope to submit further specific comments for your consideration.

Appendix

A SUMMARY OF HOUSING NEEDS

Even housing experts often do not realize the extent and gravity of our low-income housing needs. Special tabulations of 1990 census data, prepared for HUD by the Bureau of the Census for use by jurisdictions preparing Comprehensive Housing Affordability Strategies, show that 23 percent of all renters and 7 percent of owners have incomes below 30 percent of median—a shocking proportion of all households in this country.

Using the special tabulations, LIHIS totaled the State figures to obtain national data on households by tenure and percent of median income, as defined by HUD to determine eligibility for subsidized housing programs. HUD uses median family income to set these percentages, adjusting for household size and housing costs. Median incomes vary widely. HUD estimates of incomes for 1993 show a six to one difference between the highest median income (\$73,400 in Stamford, CT) and the lowest (\$12,200 in Owsley County, KY). Thus, 30 percent of median can range from \$3,660 to \$22,020, and 50 percent of median can range from \$6,100 to \$36,700.

The 1990 census counted 92.0 million households: 32.0 million renters and 60.0 million owners. But there were far more very-low-income renters than owners. In all, 7.3 million renters had incomes below 30 percent of median, and another 5.1 million had incomes between 31 percent and 50 percent of median. In other words, 39 percent of all renter households fell into the "very-low-income" category. Only 10.2 million renters had incomes above 95 percent of median. Compared to renters, owners were well off. This is true even though about 4.2 million had extremely low incomes, and another 5.1 million had incomes between 31 percent and 50 percent of median, 37.3 million had incomes above 95 percent of median. (See Table 1.)

Table 1. U.S. Households by Tenure and Income, 1990
(Numbers in millions)

Percent of area median income	Renters		Owners		Total	
	No.	Pct	No.	Pct	No.	Pct
0-30%	7.3	23%	4.2	7%	11.5	13%
31-50%	5.1	16%	5.1	8%	10.2	11%
51-80%	6.5	20%	8.5	14%	15.0	16%
81-95%	2.9	9%	4.9	8%	7.7	8%
Over 95%	10.2	32%	37.3	62%	47.5	52%
Total	32.0	100%	60.0	100%	92.0	100%

Source: Compiled from U.S. Bureau of the Census, *The Comprehensive Housing Affordability Strategy (CHAS) Database*, CD-ROM disk, July 1993.

Unfortunately, the 1990 census does not provide data on housing quality. The census does report housing costs as a percent of income and overcrowding. Households with severe housing cost burdens—paying more than half their incomes—are overwhelmingly at the bottom of the income scale. Overcrowding and moderate cost burdens (30 percent to 50 percent of income) are not as closely related to low income. Minority households also tend to be disproportionately concentrated among extremely-low- and very-low-income households and are far less likely to be owners.

In 1990, one family in ten paid over half its income for housing costs (rent or mortgage payment, utilities, and, for owners, taxes and insurance). Most, 60 percent, were renters. Almost two thirds (64 percent) of these 9.5 million households had incomes below 30 percent of median. Some 53 percent of all extremely-low-income households paid more than half of their meager incomes for housing. In contrast, only 6 percent of the households with severe cost burdens had incomes above 80 percent of median. (See Table 2.)

Table 2. Households paying more than 50% of income for housing costs, 1990
(Numbers in millions)

Percent of area median income	Renters		Owners		Total	
	No.	Pct	No.	Pct	No.	Pct
0-30%	4.2	73%	1.9	49%	6.1	64%
31-50%	1.2	21%	0.8	22%	2.1	22%
51-80%	0.2	4%	0.6	6%	0.8	9%
81-95%	0.0	1%	0.2	4%	0.2	2%
Over 95%	0.0	0%	0.4	9%	0.4	4%
Total	5.7	100%	3.9	100%	9.5	100%

Source: *Ibid*

- Among renters, 58 percent of extremely-low-income households had severe cost burdens, as did 23 percent of very-low-income households. But only 4 percent of low-income renters and 1 percent of moderate-income renters had severe cost burdens, and none above that level. Almost no above-moderate-income renters had severe cost burdens.
- Owners with incomes above 80 percent of median were somewhat more likely to have severe cost burdens. Among owners, 53 percent of extremely-low-income households had severe cost burdens, as did 22 percent of very-low-income households. Only 6 percent of low-income owners, 3 percent of moderate-income owners, and 1 percent of owners with incomes above 95 percent of median had severe cost burdens.

Households with severe cost burdens often suffer from other housing problems. They may live in substandard housing or overcrowded conditions, or both. Analysis of raw data from the 1989 American Housing Survey (AHS) shows that about one fifth of all renter households with severe cost burdens either lived in housing with moderate or severe physical problems or were overcrowded, or both.

The Census Bureau CHAS tabulations provide an unduplicated count of households in 1990 with cost burden or overcrowding problems. Households with severe cost burdens comprised 41 percent of all households with these housing problems. More than one in four households—24.2 million in all—reported these problems to the census. Most, 58 percent, were renters, even though renters comprised only 35 percent of all households. Almost one-third (32 percent) were extremely-low-income. More than two-thirds (68 percent) of all extremely-low-income households reported one or more significant problems, as did 55 percent of very-low-income households, 33 percent of low-income households, 21 percent of moderate-income households, and 9 percent of above-moderate-income households.

- Among renters, 76 percent of extremely-low-income and 75 percent of very-low-income households reported cost burden or overcrowding problems, as did 45 percent of low-income households. The incidence of moderate cost burdens or overcrowding was strikingly higher for moderate- and above-moderate-income renters than the incidence of severe cost burdens. In all, 24 percent of moderate-income renters and 10 percent of above-moderate-income renters reported cost burdens, overcrowding, or both.
- Among owners, 54 percent of extremely-low-income households had cost burdens or were overcrowded, as were 35 percent of very-low-income, and 24 percent of low-income owners. Some 19 percent of moderate-income owners and 9 percent of owners with incomes above 95 percent of median also had cost burdens or were overcrowded.

Table 3. Households with cost burden or overcrowding problems, 1990
(Numbers in millions)

Percent of area <u>median</u>	Renters		Owners		Total	
	No.	Pct	No.	Pct	No.	Pct
0-30%	5.5	40%	2.3	22%	7.8	32%
31-50%	3.8	27%	1.8	17%	5.6	23%
51-80%	2.9	21%	2.0	20%	5.0	20%
81-95%	0.7	5%	0.9	9%	1.6	7%
Over 95%	1.0	7%	3.2	31%	4.2	17%
Total	14.0	100%	10.2	100%	24.2	100%

Source: *Ibid.*

Unfortunately, the 1990 census throws little light either on the physical quality of housing units or on their economic viability. In 1993, I developed a rough measure of economic distress—the inability to afford major repairs or improvements without subsidy—for the Alliance to End Childhood Lead Poisoning. Economically distressed units were defined as all owner-occupied units where the household income was less than \$20,000 and all renter-occupied units where household income was below \$20,000, housing costs are less than \$500, and occupants paid more than 30 percent of their incomes for housing costs. Using 1991 American Housing Survey data, I estimated that 18 million of the 72 million units built before 1978 were economically distressed. A background paper on economically distressed housing prepared for the HUD Task Force on Lead-Based Paint Poisoning found this a conservative definition. More significantly, this paper found that 63 percent of these units could not meet the Housing Quality Standards used by HUD in its rental assistance programs. This is probably a far better measure of housing quality than the AHS categories of “moderately” or “severely inadequate,” since only 13 percent of the distressed units were so classified. These estimates can be revised and refined when the 1991 and 1993 American Housing Survey data becomes available.¹

¹Alliance to End Childhood Lead Poisoning, *A Framework for Action to Make Private Housing Lead-Safe*, 1993 and ICF Incorporated, *Reducing Lead-Based Paint Hazards in Economically Distressed Housing*, 1993.

There are now approximately 5.5 million households living in federally subsidized low-income housing. Most of them live in housing subsidized by HUD programs, but about 500,000 (check number) live in housing subsidized by the rural programs of the Farmers Home Administration. These units are the total amount of housing achieved by Federal low-income housing programs over more than half a century, beginning with the emergency and public housing programs launched in the depression of the 1930's.

For every very-low-income household now living in subsidized housing, there is another unsubsidized very-low-income renter household with a "worst case" housing need. They are either paying more than half their incomes for housing costs, or living in seriously substandard housing, or both. In 1990 the Senate Appropriations Committee asked HUD to report annually on "worst case" housing needs and progress toward meeting them. HUD has done two such reports, using data from the 1989 American Housing Survey (AHS). The first, issued in 1991, covered national data; the second analyzed results from the 44 metropolitan areas surveyed between 1987 and 1990. HUD's 1991 study² found 5.9 million renter households and another 3.1 million owner households paying more than half their incomes for housing or living in seriously inadequate units. Of these 9.0 million households, 5.1 million were renters with incomes below 50 percent of median who were not receiving housing assistance. These "worst case" households constituted half of all unsubsidized very-low-income renters.³ However, almost 80 percent of unassisted renters with the very lowest incomes—below 25 percent of median—had worst case problems. Worst case households contained 5 percent of our population and 7 percent of our children. Just to have enough units to meet current worst case needs would require more than doubling the present number of 4.8 million HUD-subsidized low-income housing units. Cost burden was the *only* major problem of almost three-quarters of these households.

As the name implies, "worst case" needs are only the most pressing part of the problem. For every very-low-income household with a worst case need, there are four other low- or moderate-income households for whom the goal of decent, affordable housing has been unattainable.

The 1990 census, including the special CHAS tabulations, provides the best available State by State data on housing needs. Attached is a table giving the following information for each State:

- Total households in 1990.
- Low/moderate-income households (incomes below 80 percent of median) in 1990.
- Number and percent of low- and moderate-income (below 80 percent of median) households with housing problems in 1990.
- Number of HUD-subsidized housing units in 1994 and percent of 1990 households with incomes below 80 percent of median.
- Estimated cost of housing subsidies in 1994.
- Estimated benefit of homeowner deductions in 1994.

Also included are two tables from LIHIS's forthcoming publication, *Out of Reach*, containing estimates of housing affordability by State.

²U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *Priority Housing Problems and "Worst Case" Needs in 1989: A Report to Congress*, June 1991.

³Generally, because Federal law gives them preferences for housing assistance under the public housing and Section 8 certificate and voucher programs, households paying over 50 percent of income or living in seriously inadequate housing are referred to as having "priority" housing problems. "Worst case" households are *unsubsidized, very-low-income* households with priority problems. Homeless people are assumed to have seriously substandard housing problems for purposes of the definition, but are not counted in HUD's estimates of the number of worst case households, which are based on data from the American Housing Survey.

Estimated Low and Moderate Income Households with Housing Problems, Subsidized Housing Units, and Housing Subsidy Costs, by state,

State	All Households	LMI Households	LMI Households with housing problems, 1990		HUD-subsidized housing units, 1994		Estimated Low income subsidies (millions)	Estimated Cost of Homeowner Deductions (millions)
	1990	1990	Number	Percent	Number	Percent	1994	1994
Alabama	1,506,790	849,456	311,202	47.9%	87,056	13.4%	\$474	\$964
Alaska	188,915	64,891	42,269	65.1%	12,248	18.9%	\$67	\$234
Arizona	1,368,843	551,474	348,908	63.3%	44,177	8.0%	\$240	\$1,155
Arkansas	891,179	383,086	195,624	51.1%	49,023	12.8%	\$267	\$397
California	10,361,206	3,966,159	2,774,859	70.0%	421,551	10.8%	\$2,295	\$12,442
Colorado	1,282,489	519,015	296,374	57.1%	55,885	10.8%	\$304	\$1,225
Connecticut	1,230,479	396,858	228,895	57.7%	71,124	17.9%	\$387	\$1,878
Delaware	247,497	89,408	43,307	48.4%	9,053	10.1%	\$49	\$299
Dist. of Columbia	249,634	112,110	66,606	59.4%	34,254	30.6%	\$186	\$198
Florida	5,134,869	2,025,667	1,202,142	59.3%	157,380	7.8%	\$857	\$3,917
Georgia	2,368,615	964,912	527,325	54.7%	123,770	12.8%	\$674	\$2,107
Hawaii	356,267	129,416	76,602	59.2%	20,229	15.6%	\$110	\$423
Idaho	360,723	148,458	89,009	46.5%	8,811	5.9%	\$48	\$208
Illinois	4,202,240	1,889,698	889,577	52.6%	195,769	11.6%	\$1,066	\$4,344
Indiana	2,065,355	830,729	369,242	44.4%	88,808	10.7%	\$483	\$1,694
Iowa	1,064,325	435,961	187,941	43.1%	38,153	8.8%	\$208	\$666
Kansas	944,726	377,530	176,459	46.7%	34,188	9.1%	\$186	\$732
Kentucky	1,379,782	599,117	280,975	46.9%	75,986	12.7%	\$414	\$788
Louisiana	1,499,269	649,574	372,609	57.4%	83,577	12.9%	\$455	\$906
Maine	465,312	189,397	97,225	51.3%	18,180	9.6%	\$99	\$294
Maryland	1,748,991	585,252	318,048	54.3%	89,863	15.4%	\$489	\$2,572
Massachusetts	2,247,110	839,578	471,234	56.1%	145,090	17.3%	\$790	\$2,654
Michigan	3,419,331	1,403,372	740,535	52.8%	134,482	9.6%	\$732	\$3,575
Minnesota	1,647,853	659,944	322,100	48.8%	70,998	10.6%	\$382	\$1,589
Mississippi	911,374	408,213	221,150	54.2%	47,950	11.7%	\$261	\$423
Missouri	1,961,208	813,121	376,411	46.3%	91,885	11.3%	\$500	\$1,488
Montana	306,163	131,103	63,670	48.6%	17,204	13.1%	\$94	\$135
Nebraska	602,363	248,140	106,452	42.9%	27,334	11.0%	\$149	\$393
Nevada	466,297	177,590	117,134	65.9%	19,516	11.0%	\$108	\$395
New Hampshire	411,186	146,170	86,433	59.1%	22,963	15.6%	\$124	\$458
New Jersey	2,794,711	939,290	578,180	61.6%	147,668	15.7%	\$804	\$4,149
New Mexico	542,709	225,793	132,578	58.7%	30,332	13.4%	\$165	\$350
New York	6,639,322	2,712,991	1,667,224	61.5%	452,152	16.7%	\$2,461	\$5,851
North Carolina	2,517,026	1,034,524	506,364	48.9%	109,425	10.6%	\$596	\$1,815
North Dakota	240,878	100,980	45,177	44.7%	12,860	12.7%	\$70	\$114
Ohio	4,087,546	1,669,830	801,551	48.0%	195,798	11.7%	\$1,066	\$3,573
Oklahoma	1,206,135	511,451	250,015	48.9%	60,759	11.9%	\$331	\$733
Oregon	1,103,313	442,592	252,494	57.0%	42,620	9.6%	\$232	\$768
Pennsylvania	4,495,966	1,844,968	887,235	48.1%	204,737	11.1%	\$1,115	\$4,037
Rhode Island	377,977	162,960	87,749	53.8%	34,610	21.2%	\$188	\$382
South Carolina	1,258,044	519,053	257,535	49.6%	55,217	10.6%	\$301	\$875
South Dakota	259,034	111,885	51,406	45.9%	16,729	15.0%	\$91	\$105
Tennessee	1,853,725	768,147	376,243	49.0%	85,919	11.2%	\$468	\$1,240
Texas	6,070,937	2,539,782	1,439,433	56.7%	241,307	9.5%	\$1,314	\$5,060
Utah	537,273	214,396	109,688	51.2%	14,449	6.7%	\$79	\$451
Vermont	210,650	83,177	47,163	56.7%	7,078	8.5%	\$39	\$139
Virginia	2,291,830	805,390	439,244	54.5%	89,352	11.1%	\$486	\$2,592
Washington	1,872,431	727,295	396,314	54.5%	70,138	9.6%	\$382	\$1,736
West Virginia	688,557	303,971	132,729	43.7%	30,838	10.1%	\$168	\$332
Wisconsin	1,822,118	740,589	369,218	49.9%	67,035	9.1%	\$365	\$1,444
Wyoming	168,839	68,614	30,708	44.8%	5,471	8.0%	\$30	\$107
Total	91,947,410	36,712,973	20,238,365	55.1%	4,270,001	11.6%	\$23,244	\$84,395

Note: Subsidized housing total omits units in Guam, Puerto Rico, and the Virgin Islands

Sources: LMI households needing housing assistance are households with housing problems and incomes below 80% of median, based on U.S. Census CHAS tabulations. HUD-subsidized housing units are based on estimates provided by HUD's Office of Policy Development and Research. Estimated housing subsidies is OMB estimated housing assistance cost, allocated by number of units in each state. Estimated homeowner deduction benefit is allocation of total estimated cost by percent of owner households with incomes above \$50,000.

ESTIMATED AVERAGE FAIR MARKET RENTS, MEDIAN RENTER INCOME, AND KEY AFFORDABILITY FACTORS, BY STATE, 1994

STATE	ESTIMATED FAIR MARKET RENTS						INCOME NEEDED AS PERCENT UNABLE TO AFFORD				INCOME NEEDED AS PERCENT OF TWO-BEDROOM				HOURLY WAGE NEEDED				PERCENT OF MINIMUM WAGE		STATE RANKS FOR 2BR UNITS	
	EFF	1BR	2BR	3BR	4BR		1BR	2BR	3BR	4BR	1 PERS	2 PERS	3 PERS	4 PERS	1BR	2BR	1BR	2BR	FMR TO AFFC	% UNAB		
						INCOME NEEDED																
Alabama	\$317	\$354	\$424	\$571	\$651	\$14,150	\$16,968	37%	44%	192%	144%	138%	115%	\$6.80	\$8.18	160%	192%	49	38			
Alaska	\$459	\$558	\$658	\$820	\$918	\$22,320	\$28,240	37%	44%	243%	181%	170%	142%	\$10.73	\$12.62	252%	297%	9	37			
Arizona	\$337	\$406	\$517	\$719	\$845	\$16,258	\$20,691	37%	47%	221%	165%	168%	140%	\$7.82	\$9.95	184%	234%	28	22			
Arkansas	\$308	\$356	\$434	\$586	\$665	\$14,230	\$17,358	40%	47%	193%	145%	141%	117%	\$6.84	\$8.35	161%	196%	45	23			
California	\$544	\$647	\$801	\$1,081	\$1,247	\$25,873	\$32,032	48%	57%	352%	263%	260%	216%	\$12.44	\$15.40	293%	362%	3	3			
Colorado	\$337	\$412	\$531	\$723	\$846	\$18,480	\$21,252	36%	46%	224%	167%	172%	144%	\$7.82	\$10.22	186%	240%	25	31			
Connecticut	\$516	\$638	\$793	\$1,010	\$1,187	\$25,540	\$31,701	44%	53%	347%	260%	257%	214%	\$12.28	\$15.24	289%	359%	4	11			
Delaware	\$403	\$524	\$611	\$760	\$976	\$20,962	\$24,442	36%	42%	285%	213%	198%	165%	\$10.08	\$11.75	237%	276%	14	48			
District of Columbia	\$633	\$719	\$844	\$1,149	\$1,385	\$28,760	\$33,760	54%	62%	391%	292%	274%	228%	\$13.83	\$16.23	325%	382%	NA	NA			
Florida	\$413	\$492	\$605	\$814	\$951	\$19,670	\$24,210	42%	51%	267%	200%	197%	164%	\$9.48	\$11.64	223%	274%	16	18			
Georgia	\$408	\$457	\$538	\$719	\$847	\$18,291	\$21,525	44%	52%	249%	186%	175%	145%	\$8.79	\$10.35	207%	243%	24	13			
Hawaii	\$760	\$909	\$1,069	\$1,445	\$1,563	\$38,360	\$42,760	55%	65%	428%	321%	302%	251%	\$17.48	\$20.56	411%	484%	1	1			
Idaho	\$349	\$387	\$485	\$674	\$795	\$15,480	\$19,400	35%	43%	210%	157%	157%	131%	\$7.44	\$9.33	175%	219%	33	43			
Illinois	\$446	\$548	\$642	\$820	\$918	\$21,934	\$25,665	51%	56%	298%	223%	208%	173%	\$10.55	\$12.34	249%	290%	12	4			
Indiana	\$319	\$397	\$486	\$619	\$693	\$15,873	\$19,444	39%	47%	216%	161%	158%	131%	\$7.63	\$9.35	180%	220%	31	24			
Iowa	\$352	\$430	\$508	\$639	\$716	\$17,190	\$20,329	40%	47%	234%	175%	165%	137%	\$8.26	\$9.77	184%	230%	30	25			
Kansas	\$308	\$377	\$478	\$653	\$721	\$15,076	\$19,106	33%	40%	205%	153%	155%	129%	\$7.25	\$9.19	171%	216%	35	49			
Kentucky	\$299	\$370	\$445	\$583	\$635	\$14,790	\$17,802	40%	47%	201%	150%	144%	120%	\$7.11	\$8.58	167%	201%	42	26			
Louisiana	\$312	\$365	\$452	\$600	\$705	\$14,616	\$18,069	40%	48%	199%	149%	147%	122%	\$7.03	\$8.69	165%	204%	41	18			
Maine	\$353	\$458	\$566	\$752	\$835	\$18,321	\$23,837	43%	54%	249%	186%	193%	161%	\$8.81	\$11.46	207%	270%	19	9			
Maryland	\$486	\$575	\$689	\$923	\$1,084	\$22,988	\$27,579	40%	46%	312%	234%	224%	186%	\$11.05	\$13.26	260%	312%	7	32			
Massachusetts	\$499	\$591	\$741	\$926	\$1,064	\$23,640	\$29,653	46%	55%	321%	240%	241%	200%	\$11.37	\$14.28	267%	335%	6	7			
Michigan	\$344	\$440	\$540	\$681	\$763	\$17,585	\$21,602	40%	47%	239%	179%	175%	146%	\$8.45	\$10.39	199%	244%	23	27			
Minnesota	\$416	\$509	\$603	\$759	\$851	\$20,359	\$24,128	47%	54%	277%	207%	196%	163%	\$9.79	\$11.60	230%	273%	17	10			
Mississippi	\$313	\$364	\$429	\$585	\$655	\$14,554	\$17,170	40%	46%	188%	148%	139%	116%	\$7.00	\$8.25	165%	194%	46	33			
Missouri	\$295	\$366	\$459	\$604	\$678	\$14,625	\$18,347	33%	42%	199%	149%	149%	124%	\$7.03	\$8.82	165%	208%	39	47			
Montana	\$236	\$301	\$404	\$531	\$646	\$12,026	\$16,149	33%	44%	163%	122%	131%	109%	\$5.78	\$7.76	136%	183%	50	38			
Nebraska	\$298	\$392	\$485	\$627	\$703	\$15,688	\$19,419	35%	44%	213%	159%	158%	131%	\$7.54	\$9.34	177%	220%	32	39			
Nevada	\$429	\$511	\$607	\$823	\$961	\$20,455	\$24,282	37%	44%	278%	208%	197%	164%	\$9.83	\$11.67	231%	275%	15	40			
New Hampshire	\$398	\$510	\$659	\$851	\$1,006	\$20,409	\$26,373	37%	47%	277%	207%	214%	178%	\$9.81	\$12.68	231%	298%	8	28			
New Jersey	\$559	\$667	\$805	\$1,040	\$1,198	\$26,661	\$32,191	44%	52%	362%	271%	261%	218%	\$12.82	\$15.48	302%	364%	2	14			

ESTIMATED AVERAGE FAIR MARKET RENTS, MEDIAN RENTER INCOME, AND KEY AFFORDABILITY FACTORS, BY STATE, 1994

STATE	ESTIMATED FAIR MARKET RENTS					INCOME NEEDED					PERCENT UNABLE TO AFFORD					INCOME NEEDED AS PERCENT OF POVERTY LEVEL					HOURLY WAGE NEEDED			PERCENT OF MINIMUM WAGE		STATE RANKS FOR 2BR UNITS	
	EFF	1BR	2BR	3BR	4BR	1BR	2BR	3BR	4BR	1BR	2BR	3BR	4BR	1PERS	2PERS	3PERS	4PERS	1BR	2BR	3BR	1BR	2BR	1BR	2BR	FMR TO AFFL	% UNAB	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%	%	%	%	%	%	%	\$	\$	\$	%	%	%	%			
New Mexico	\$385	\$469	\$552	\$699	\$789	\$18,774	\$22,086	44%	52%	255%	191%	179%	149%	25%	21%	18%	15%	\$9.03	\$10.62	21%	25%	20%	25%	22	15		
New York	\$685	\$666	\$769	\$972	\$1,083	\$28,643	\$30,762	54%	62%	362%	271%	250%	208%	52%	47%	43%	37%	\$12.81	\$14.78	301%	348%	301%	348%	5	2		
North Carolina	\$355	\$411	\$482	\$648	\$739	\$16,445	\$18,265	37%	43%	223%	167%	156%	130%	23%	20%	18%	14%	\$7.81	\$9.28	186%	218%	186%	218%	34	44		
North Dakota	\$329	\$400	\$472	\$590	\$661	\$16,006	\$18,868	40%	47%	217%	163%	153%	127%	40%	36%	33%	29%	\$7.69	\$9.07	181%	213%	181%	213%	38	29		
Ohio	\$291	\$354	\$436	\$551	\$621	\$14,152	\$17,437	36%	44%	192%	144%	142%	118%	36%	32%	29%	24%	\$6.80	\$8.38	160%	197%	160%	197%	44	41		
Oklahoma	\$302	\$341	\$441	\$614	\$701	\$13,627	\$17,659	35%	46%	185%	138%	143%	119%	35%	31%	28%	23%	\$6.55	\$8.49	154%	200%	154%	200%	43	34		
Oregon	\$363	\$442	\$529	\$659	\$784	\$17,689	\$21,169	40%	47%	240%	180%	172%	143%	40%	36%	33%	29%	\$8.50	\$10.18	200%	239%	200%	239%	28	30		
Pennsylvania	\$388	\$498	\$603	\$763	\$864	\$19,901	\$24,103	47%	55%	270%	202%	196%	163%	47%	43%	40%	35%	\$9.57	\$11.59	225%	273%	225%	273%	18	8		
Rhode Island	\$398	\$540	\$650	\$814	\$1,001	\$21,593	\$26,017	48%	56%	293%	219%	211%	176%	48%	44%	41%	36%	\$10.38	\$12.51	244%	294%	244%	294%	10	5		
South Carolina	\$347	\$398	\$460	\$599	\$696	\$15,927	\$18,417	36%	42%	216%	162%	149%	124%	36%	32%	29%	24%	\$7.66	\$8.85	180%	208%	180%	208%	38	48		
South Dakota	\$307	\$371	\$456	\$581	\$686	\$14,844	\$18,253	35%	43%	202%	151%	148%	123%	35%	31%	28%	23%	\$7.14	\$8.78	168%	206%	168%	206%	40	45		
Tennessee	\$323	\$382	\$462	\$618	\$681	\$15,298	\$18,463	39%	46%	208%	155%	150%	125%	39%	35%	32%	27%	\$7.35	\$8.88	173%	209%	173%	209%	37	35		
Texas	\$362	\$420	\$521	\$694	\$799	\$16,819	\$20,850	40%	49%	229%	171%	169%	141%	40%	36%	33%	29%	\$8.09	\$10.02	190%	236%	190%	236%	27	17		
Utah	\$302	\$341	\$425	\$542	\$614	\$13,629	\$17,008	33%	40%	185%	139%	138%	115%	33%	29%	26%	21%	\$6.55	\$8.18	154%	192%	154%	192%	48	50		
Vermont	\$393	\$483	\$644	\$877	\$1,057	\$19,320	\$25,760	40%	53%	253%	196%	209%	174%	40%	36%	33%	29%	\$9.29	\$12.38	219%	281%	219%	281%	11	12		
Virginia	\$464	\$530	\$627	\$856	\$1,018	\$21,181	\$25,084	42%	48%	288%	215%	204%	169%	42%	38%	35%	30%	\$10.18	\$12.08	240%	284%	240%	284%	13	19		
Washington	\$387	\$468	\$595	\$816	\$946	\$18,728	\$23,792	40%	48%	254%	190%	193%	161%	40%	36%	33%	29%	\$9.00	\$11.44	212%	269%	212%	269%	20	20		
West Virginia	\$275	\$350	\$426	\$552	\$614	\$13,981	\$17,026	40%	48%	190%	142%	138%	115%	40%	36%	33%	29%	\$6.72	\$8.19	158%	193%	158%	193%	47	21		
Wisconsin	\$328	\$442	\$517	\$665	\$751	\$17,680	\$20,689	39%	44%	240%	180%	168%	140%	39%	35%	32%	27%	\$8.50	\$9.85	200%	234%	200%	234%	29	42		
Wyoming	\$407	\$494	\$583	\$731	\$818	\$19,773	\$23,310	49%	56%	269%	201%	189%	157%	49%	45%	41%	36%	\$11.21	\$11.21	224%	284%	224%	284%	21	6		
Median state	\$337	\$400	\$485	\$648	\$721	\$16,006	\$19,419	39%	46%	217%	163%	158%	131%	39%	35%	32%	27%	\$7.69	\$9.34	181%	220%	181%	220%	NA	NA		

Source: Fair Market Rents from Notice of final fair market rents, Section 8 Housing Assistance Payments Program; Fair Market Rent Schedules for Use in the Rental Certificate Program, Loan Management and Property Disposition Programs, Moderate Rehabilitation Program and Rental Voucher Program, 24 CFR Part 888, Federal Register, 10/1/93, pp. 51410-51469; correction, FR, 10/28/93, pp. 57964-66. Counties as shown in Federal Register listing of 1994 FMRs. Estimated renters unable to afford FMRs based on 1990 median renter incomes adjusted by a factor based on HUD estimated income, by decile, for metropolitan area trended forward to 1994. This approach assumes that renter income distributions were similar to those in 1990 and that changes in renter incomes were similar to changes in overall income levels. Information in this table may be cited as Low Income Housing Information Service, Out of Reach, forthcoming, 1994.

ESTIMATED AVERAGE FAIR MARKET RENTS, AND INCOME NEEDED COMPARED TO AFDC AND SSI GRANT LEVELS, BY STATE, 1994

STATE	FAIR MARKET RENT		INCOME NEEDED TO AFFORD		Maximum AFDC grant as % of 2BR FMR		Maximum SSI grant as % of 1BR FMR		State Ranks by	
	1BR	2BR	1BR	2BR	3-psn	4-psn	1-psn	2-psn	AFDC	SSI
Alabama	\$354	\$424	\$14,150	\$18,968	39%	46%	123%	187%	3	42
Alaska	\$558	\$656	\$22,320	\$28,240	141%	156%	145%	214%	50	47
Arizona	\$406	\$517	\$18,258	\$20,691	67%	81%	107%	160%	28	28
Arkansas	\$356	\$434	\$14,230	\$17,358	47%	57%	122%	183%	7	40
California	\$647	\$801	\$25,873	\$32,032	78%	93%	96%	176%	33	15
Colorado	\$412	\$531	\$16,480	\$21,252	67%	81%	119%	237%	25	36
Connecticut	\$638	\$793	\$25,540	\$31,701	86%	100%	117%	171%	39	31
Delaware	\$524	\$611	\$20,962	\$24,442	55%	67%	83%	124%	14	8
District of Columbia	\$719	\$844	\$28,760	\$33,760	48%	59%	62%	95%	NA	—
Florida	\$492	\$605	\$19,670	\$24,210	50%	60%	88%	133%	8	7
Georgia	\$457	\$538	\$18,291	\$21,525	52%	61%	96%	143%	10	18
Hawaii	\$909	\$1,069	\$36,360	\$42,760	65%	78%	48%	73%	23	1
Idaho	\$387	\$485	\$15,480	\$19,400	65%	74%	129%	179%	24	45
Illinois	\$548	\$642	\$21,934	\$25,665	54%	61%	—	—	13	—
Indiana	\$397	\$486	\$15,873	\$19,444	59%	71%	109%	164%	20	28
Iowa	\$430	\$508	\$17,190	\$20,329	84%	97%	101%	152%	36	20
Kansas	\$377	\$478	\$15,076	\$19,106	90%	104%	115%	173%	44	30
Kentucky	\$370	\$445	\$14,790	\$17,802	51%	64%	117%	176%	9	32
Louisiana	\$365	\$452	\$14,816	\$18,069	42%	52%	119%	178%	5	35
Maine	\$458	\$596	\$18,321	\$23,837	76%	95%	97%	146%	32	17
Maryland	\$575	\$689	\$22,988	\$27,579	52%	63%	76%	113%	11	3
Massachusetts	\$591	\$741	\$23,640	\$29,653	73%	85%	95%	144%	29	14
Michigan	\$440	\$540	\$17,585	\$21,602	87%	100%	102%	153%	41	23
Minnesota	\$509	\$603	\$20,359	\$24,128	88%	103%	101%	153%	42	21
Mississippi	\$364	\$429	\$14,554	\$17,170	28%	34%	119%	179%	1	38
Missouri	\$366	\$459	\$14,625	\$18,347	64%	75%	119%	178%	22	34
Montana	\$301	\$404	\$12,028	\$16,149	97%	116%	144%	217%	47	46
Nebraska	\$392	\$485	\$15,688	\$19,419	75%	90%	118%	176%	31	33
Nevada	\$511	\$607	\$20,455	\$24,282	57%	67%	92%	142%	17	10
New Hampshire	\$510	\$659	\$20,409	\$26,373	78%	87%	90%	132%	35	9
New Jersey	\$667	\$805	\$26,661	\$32,191	53%	61%	70%	57%	12	2
New Mexico	\$469	\$552	\$18,774	\$22,088	59%	70%	92%	139%	19	12
New York	\$668	\$789	\$26,643	\$30,762	70%	84%	78%	113%	28	4
North Carolina	\$411	\$482	\$16,445	\$19,265	56%	62%	106%	159%	18	25
North Dakota	\$400	\$472	\$16,006	\$18,868	85%	104%	—	—	37	—
Ohio	\$354	\$438	\$14,152	\$17,437	78%	97%	123%	184%	34	41
Oklahoma	\$341	\$441	\$13,627	\$17,659	73%	91%	145%	227%	30	48
Oregon	\$442	\$529	\$17,689	\$21,169	87%	107%	99%	147%	40	18
Pennsylvania	\$498	\$603	\$19,901	\$24,103	70%	85%	94%	141%	27	13
Rhode Island	\$540	\$650	\$21,593	\$26,017	85%	97%	92%	143%	38	11
South Carolina	\$398	\$460	\$15,927	\$18,417	43%	52%	109%	164%	6	27
South Dakota	\$371	\$456	\$14,844	\$18,253	89%	99%	121%	180%	43	39
Tennessee	\$382	\$462	\$15,298	\$18,463	40%	49%	113%	170%	4	29
Texas	\$420	\$521	\$16,819	\$20,850	35%	42%	103%	155%	2	24
Utah	\$341	\$425	\$13,629	\$17,008	95%	111%	129%	194%	46	44
Vermont	\$483	\$644	\$19,320	\$25,760	102%	115%	102%	158%	49	22
Virginia	\$530	\$627	\$21,181	\$25,084	56%	65%	82%	123%	15	5
Washington	\$468	\$595	\$18,728	\$23,792	92%	108%	99%	144%	45	19
West Virginia	\$350	\$426	\$13,981	\$17,026	58%	73%	124%	187%	18	43
Wisconsin	\$442	\$517	\$17,680	\$20,689	100%	119%	119%	181%	48	37
Wyoming	\$494	\$583	\$19,773	\$23,310	62%	67%	90%	136%	21	8
Median state	\$406	\$486	\$16,445	\$19,444	59%	70%	96%	144%	NA	NA

Low Income Housing Information Service

OUTREACH.W81

PREPARED STATEMENT OF SANDY BEDDOR, MSW
DIRECTOR, COMPREHENSIVE HOUSING AND SERVICES
FAMILY TREE, INC.
ON BEHALF OF THE
NATIONAL ALLIANCE TO END HOMELESSNESS

Mr. Chairman and Members of the Subcommittee, my name is Sandy Beddor and I am the Director of Family Tree's Comprehensive Housing and Services program. It is an honor and a privilege to be here to testify on the HUD Stewart B. McKinney Act programs. I am testifying today on behalf of the National Alliance To End Homelessness and Family Tree, which is a member of the Alliance.

Family Tree, Inc. is a not-for-profit community organization in Wheat Ridge, Colorado. For over 17 years we have been providing shelter and supportive services to battered women and their children, adolescents in crisis, and runaway and homeless youth. Family Tree also provides transitional and permanent housing to homeless families and individuals trying to achieve self-sufficiency. Family Tree has been an active member agency of the National Alliance To End Homelessness for over 5 years. We have been fortunate to be a recipient of funds from numerous McKinney programs including the Supportive Housing program, SAFAH, the Emergency Shelter Grant program, and the Literacy for the Homeless program. Family Tree is also a recipient of FEMA funds.

The National Alliance To End Homelessness is a national membership organization with 1,750 dues paying nonprofit members from every State in the Union. The vast majority of Alliance members focus their efforts on the transitional and permanent housing and service needs of homeless people. These are the organizations that are on the front lines in the battle to end homelessness.

I would like to begin my testimony today by telling you about a new friend of mine. We recently met at a drug and alcohol task force meeting addressing the unique needs of homeless women with children attempting to seek treatment in our area. Bernadine was asked to be on the task force because she has been in treatment for over a year and represented the type of client the task force was interested in helping. Bernadine is a 35 year old single mother of three children ages 17, 7, and 4. She tells those who will listen that she is addicted to alcohol and crack cocaine. Bernadine's children were removed from her home after her caring brother reported her drug abuse problem. Her brother's actions probably saved her life. Eventually her parental rights were terminated and the children finally placed with family members. Prior to receiving treatment, Bernadine was homeless for about five months.

Now, Bernadine is looking forward to graduating from an intensive long-term treatment facility. She is starting to worry about what will happen. You see, she has no place to live. She is also concerned about the support she knows she'll continue to need for a while as she adjusts to living on her own. Her goals are not lofty by any means. She wants help in re-establishing her parental rights (her kids and family members are supportive of these actions), she wants to find stable housing that she can afford, she hopes to enroll in a job training program to develop better skills so she can try to find a job with living wages, and she hopes to surround herself with caring, healthy, friends and family.

I am confident that whichever direction this Subcommittee decides to go with the reauthorization of the HUD McKinney Act programs, Bernadine will find the services she needs. She is extremely resourceful and has the will to stick with it. However, as the system now plays out in our corner of the world, we must wait for Bernadine to become more eminently at risk of homelessness before we can help her with transitional housing and intensive case management services. Since she needs a three bedroom unit, she can anticipate waiting for a subsidized unit for about 3 years. For transitional housing, we have only two three bedroom units in the largest county in Colorado. This same scenario could be happening in other areas of the country as well. This type of wait is not unusual. As you can see for Bernadine and the others who are at risk of homelessness in this country, the HUD McKinney Act programs are not optional efforts. Without them homeless people will live, and will die, on the street. These are critical life or death programs that impact single adult men, many with alcohol and drug abuse problems or mental illness; children; working people; pregnant women; veterans; disabled people; and even infants.

I should also mention that, after years of revision and refinement, and although far from perfect and vastly over-subscribed, these programs work well. While eventually we will be able to remove the, pardon the expression, safety net that these programs represent, at the moment they are badly needed. This is because homeless

people require programs tailored to their needs. Until the so-called mainstream programs are adequately funded and until they can be made to respond to people in crisis, we must look to the McKinney Act and other homeless programs to help people keep their heads above water and to re-establish their stability. While they are not the solution to homelessness, they have been and they remain a critical element in our national strategy to end homelessness.

Mr. Chairman and Members, you have before you several proposed approaches to dealing with the HUD McKinney Act programs. I will focus today on two: H.R. 3838, as introduced in the House by Chairman Gonzales, which retains the current categorical programs and the Administration's Reorganization of the Stewart B. McKinney Homeless Assistance Act (although it only addresses HUD's and FEMA's programs).

I think that the Subcommittee, and indeed all of us, face a real challenge in deciding how best to use the limited resources contained in the McKinney programs. There are issues of local control vs. Federal leadership; of entities that receive funds vs. entities that have been unsuccessful in obtaining them; of emergency assistance vs. permanent housing; of expending HUD resources on housing vs. spending them on services; of nonprofits vs. local governments; and of coordination vs. competition. We will not get it all—there will be trade-offs. I would like to discuss some of the issues involved with you today.

In the past the members of the National Alliance to End Homelessness have opposed the consolidation of McKinney programs. This is primarily because of their apprehension about turning Federal homelessness resources over to localities for distribution. While some localities have done an excellent job of dealing with homelessness, many have not. Our local government entities must be encouraged, perhaps through incentives, to share the dollars with the service providers. We have looked at funds like the Community Development Block Grant dollars to provide funding for community-wide projects that meet the needs of low-income families. It has been our recent experience however, that instead of sub-contracting with existing community nonprofits, cities use these dollars to build their own infrastructure and have little motivation to do otherwise. We fear this could happen with McKinney dollars as well.

In addition, many localities have been, at best, indifferent to the problems of homeless people, and, at worst, have expended far more energy on moving homeless people out of the community than on helping them find permanent housing within it. Our nonprofit members experience first hand the politicization of the issue at the local level and dread the day when decisions about serving unpopular and difficult populations such as single adult men with alcohol and substance abuse problems or AIDS will have to be made within the local political arena. Federal competition, imperfect as it has been, has at least had the pretense of being based on the merits of need and performance. It is nonprofits which have taken the initiative on ending homelessness at the local level and Federal competition has allowed them to do what they felt was necessary, if they could prevail in the competitive process. While the solutions to homelessness are, indeed, local, they do not necessarily rest with local government.

Having said this, I believe that HUD has correctly assessed the many problems inherent in running a series of competitive programs. These problems center on the fact that, to the degree that localities, both nonprofits and local governments, rely upon the use of Federal funds, it is virtually impossible for them to plan a coordinated and comprehensive solution to the problem. They cannot plan on the presence or absence of funding, nor can they decide what it will be used for. And, having taken the piecemeal approach for the past 5 years, many are ready for coordination.

We have, then, a situation of two proposals, both with positive and negative aspects. The categorical programs give great opportunity for Federal leadership through program design—a critical factor when resources are scarce. They are competitive, and non-politicized. The formula program, on the other hand, allows for local planning and design of comprehensive assistance—also critically important. It seems that, with the limited resources we have to work with, trade-offs will be necessary. We would like to work with you, Mr. Chairman, and the other Members of the Subcommittee to fashion a sensible system of trade-offs. We do not yet have an answer, although I will suggest today two possible alternative ideas. But I believe that as we receive further input from our members, we should be able to assess what will work at the local level.

I would now like to discuss the HUD proposal and possible modifications of it and I will finish with some recommendations as to changes in the categorical programs. The changes to the categorical programs are detailed in an attachment and would apply to either the categorical programs (if they are retained) or to the eligible activities of a formula program.

The HUD proposal is ambitious, comprehensive, and has many excellent elements. We are deeply grateful to Secretary Cisneros for his leadership on this issue and for being willing to commit resources to it. We have actively worked with Assistant Secretary Cuomo on HUD's proposal, and they have incorporated many of our suggestions. If you decide to go with a formula-based approach, I think that HUD's proposal is an excellent starting point. I believe that our members will be very attracted to the elements of this proposal that require local planning; mandate a "continuum of care," or comprehensive approach; and provide consistency of funding. Certainly they will be grateful for the level of funding requested.

There are, in our opinion, several key elements to HUD's proposal which must be carefully assessed.

- *Formula and funding level.* The Emergency Shelter Grant formula is proposed. We have not seen how this formula plays out when applied (i.e., how much localities and rural areas will receive). The concern for any formula would be spreading the money too thin or making enormous shifts in funds distribution. We have nothing against the ESG formula, but urge you to carefully examine the results of applying it. If the funds available for formula distribution fall too low, the allocation to each locality will be too small. The trigger proposed in the legislation is essential, but we will need to see how the formula plays out when applied to the lowest allowable level (\$510 million) to assess whether it is set at the correct mark.
- *Needs Assessment.* Needs assessment is critical because many localities focus resources on those sub-sets of the homeless population that are more popular to serve (i.e., families with children) when the bulk of their problem lies with single adults with illnesses. It is important to stipulate that the priorities and programs established adequately and proportionately reflect the nature of the problems and needs identified.
- *Local planning board.* This is, in our opinion, essential to the success of the proposed reorganization. It is the protection that addresses the politicization of homelessness at the local level. It ensures that those who know the solutions best—homeless people and the nonprofits that assist them—help design local efforts. It is also critical that the constituent members of the board be specified in the legislation. This is done in HUD's proposal, but we would also include the local mental health, substance abuse treatment, and other service providers and agencies; the public housing authority; and others that we will recommend at a later date.
- *Non-participating cities.* It would not be a surprise if some localities chose not to apply for these funds. In fact, match, maintenance of effort, and other requirements might be a disincentive to doing so. HUD does provide an option should localities choose not to participate. It is our concern that this alternative be implemented quickly and that the process then be separated from the locality's consolidated planning process.
- *Section 8 vouchers.* Any organization operating an emergency or transitional program will tell you that a major problem they face is finding permanent housing for their clients. Without the permanent housing to move to, these programs are not transitional, but really long-term shelters. While designing a way to use these vouchers without drawing the millions of under-housed Americans into the homelessness system is a challenge, targeting the Section 8 resources to those most in need—the homeless—is the right thing to do.

As I mentioned, a major concern with the HUD proposal is that the formula will spread resources too thin so that there will not be enough money to operate the "emergency" assistance infrastructure (prevention, shelter, transitional housing) and build permanent housing to meet the primary need of homeless people. One solution to this problem was suggested by the House in the Conference Report on the 1990 Act. This was to develop a formula-driven program to support prevention, emergency and transitional housing, but hold out the SRO program. We might further suggest exploring the possibility of strengthening the permanent housing aspect of Shelter + Care and holding this out also.

Under this option you would have a formula allocation for prevention, emergency shelter, and transitional housing assistance. As such, all activities under the Emergency Shelter Grant program, the Rural Homeless Assistance program, the Supportive Housing program, Safe Havens, and the Innovative Homeless Demonstration program would be eligible. Permanent housing activities would also be eligible, where the locality so determined. We would discourage any set-asides or program targeting within this formula allocation to preserve local initiative in designing the "continuum of care."

The SRO Section 8 Moderate Rehabilitation program and the Shelter + Care program could be held out of the formula allocation and operated as competitive grant

programs (with certain changes proposed in the attachments) to provide permanent housing. This proposal would address the following concerns.

- It more clearly defines that the Homeless Grant funds are designed to address emergency and temporary housing needs of homeless people—prevention assistance, shelter, and transitional housing. While a community could use this money for eligible permanent housing activities under the programs allowed, the preponderance of permanent housing should come from permanent housing programs, including SRO and Shelter + Care, CDBG, HOME, Section 8, and so on.
- SRO and Shelter + Care are unique in targeting assistance to single adults, including those with AIDS, mental health, and alcohol and other substance abuse illnesses. We need the Federal leadership and targeting these categorical programs represent. This proposal retains that targeting.
- The Alliance maintains that the loss of ½ of the Nation's SRO stock since 1970 has contributed to homelessness. We believe that for single adults—the majority of the homeless population—well managed SRO housing can be the missing link in the housing market. The Federal SRO programs have stimulated the production of thousands of units of housing. The programs are finally getting up to speed and are currently over-subscribed in terms of applications. We fear losing the stimulus for SRO production if the categorical program is eliminated. For this reason, we recommend holding it out with the changes proposed in the attachments.

Another possible modification of the HUD proposal is to enter into it more slowly than HUD's legislation anticipates. This is an ambitious change in Federal assistance to homeless people and as such its implementation must be carefully planned. As I mentioned, neither the Alliance nor the Congress has had time to ascertain how the formula will affect distribution of funds. The local planning process is necessarily complex and it will take time to institute local planning boards and make them effective. If the local government abdicates from the program, the process of local nonprofit consortia assuming their responsibility will also be time-consuming. These time concerns, which might not be a problem for other programs, are of deep concern when dealing with homeless programs, because any interruption in service is a life or death matter to homeless individuals and families. Is it possible that the formula allocation, with the attendant coordinated approach, could commence in fiscal year 1996 rather than fiscal year 1995, with preliminary plans in fiscal year 1995 for fiscal year 1996 funds? This would give us an extra year to get the infrastructure in place before trying to force the program into effect.

Options such as withholding the SRO and Shelter + Care programs, or giving the formula program more start-up time are matters the Subcommittee could consider as you address the possibility of formula-allocating the HUD McKinney funds.

In regard to the categorical programs as proposed for reauthorization under H.R. 3838, the Alliance convened focus groups of its members last year, of which I was a participant, to examine the statutory authority for these programs (as well as regulations and other governing language). In general, these focus groups recommended that wherever possible the programs be made uniform in terms of their match requirements, target populations (which they recommend should be anyone who falls under the McKinney Act definition of homelessness) and their definitions, including definitions of homelessness, operating costs, and the like. The groups also recommended that nonprofits be eligible applicants for all McKinney programs. They recommended that programs that work not be phased out, but encouraged to continue and that programs receive more funding for follow-up with their clients, in line with their desire to undertake far more evaluation of their programs. It was also suggested that the playing field be leveled by providing a mechanism which divides the dollars up on a geographical distribution so that no region in the country goes without funding. As I mentioned, the specific statutory changes for Supportive Housing, SRO Mod 8, and Shelter + Care are attached. Also attached are the funding levels which we propose for: (1) the categorical programs; (2) the HUD proposed Homeless Grant program; and (3) the alternative reorganization program.

As to the matter of moving the Emergency Food and Shelter program from FEMA to HUD, we see no compelling reason to do so. While coordination is cited as the rationale, HUD intends to structure the program precisely as it is currently structured and no coordination with other programs appears to be contemplated. FEMA's outlays on this program are virtually 100 percent in each initial year, with most of the money going out in the first quarter. HUD can only dream of such efficiency. If it isn't broken, why fix it?

Mr. Chairman and Members of the Subcommittee, we are deeply grateful to you for allowing us to testify before you today. In this Committee reside those in Congress most concerned about homeless people. We will continue to rely upon your

leadership, and we stand ready to assist in any way to build the solutions to homelessness.

NATIONAL ALLIANCE TO END HOMELESSNESS
STATUTORY CHANGES
Supportive Housing Program

Section 421. Purpose.

Omit, "including innovative approaches to assist homeless persons in the transition from homelessness." There is no intrinsic value in innovation versus non-innovation. The important element is effectiveness.

Section 422. Definitions.

Under disability add chronic alcohol or other drug abuse illnesses and severe personality disorders. *(Also, it should be recognized that people may have more than one disability. This disability may be both a physical and a mental disability.)*

Under operating costs, further define to include one-time capital costs such as computer networks and telephone systems.

Section 423. Eligible Activities.

Change the cap on acquisition, rehab, and new construction to \$1 million. Update this figure annually based upon current statistics.

Omit the 75 percent cap on grant funds available for operating costs. 100 percent should be eligible. (See Changes Under Matching Requirements.)

Regarding the 20-year operation of supportive housing, a mechanism is needed by which organizations which are no longer able or no longer need to operate the facility as supportive housing can transfer it to other nonprofit entities if its low-income use is preserved.

Section 424. Supportive Housing.

Under permanent housing for homeless persons with disabilities, the maximum size of the project is too confining and should be left to local control. *(Concern is raised regarding local control. It may want to be left up to the individual applicant with verification of the reasonableness of the size.)*

Section 426. Program Requirements.

Under the Contents of the Application, clarify that only one local official needs to sign off on CHAS consistency.

Under Selection Criteria, drop the section requiring innovative quality.

Under Matching Funding, there should be a required 10 percent (25 percent) match against the entire grant request. It should then be left to local applicants to determine for what portion (services, housing, administration, operations, etc.) of the program they can obtain the match.

Flood protection standards should be loosened to reflect common sense.

The limitation on administrative expenses should be dropped. Applicants should be required to present a proposal for a program that has no more than 30 percent of all the funds going to administration. There should then be no restriction on the percentage of that 30 percent which is covered by HUD.

Section 429. Authorization of Appropriation.

Omit set-asides of 25 percent each for families with children and homeless people with disabilities and 10 percent for support services.

NATIONAL ALLIANCE TO END HOMELESSNESS
STATUTORY CHANGES

Single Room Occupancy (SRO) Section 8 Mod Rehab Program

Section 441(a). Increase in Budget Authority.

Re-calculate budget authority to increase the certificates to 15 years consistent with increasing the supply of SRO's by 2,000 units per year. Also take into account the FMR and the need to realistically adjust it.

Section 441(b). Use of Funds.

Needs to make clear that nonprofits that apply will retroactively be able to use their current certificates.

Section 441(c). Allocation.

(3). Groups need not provide a full inventory of suitable housing stock, but rather name the stock they are interested in.

Increase cap on single locality's eligibility to receive funds from 10 percent of total to (up) to 25 percent of total. [This stipulation should be regulatory and not statutory.]

Section 441(d). Fire and Safety Improvements.

Section should be changed to, "projects must comply with State and local fire and safety codes."

Section 441(e). Cost Limitation.

(1). Change to read that the Secretary will each year set a per unit limit that will be appropriate to the locality and will not be less than the previous year's limit (plus inflation).

Section 441(f). Contract Requirements.

(1). Initial contracts should be for 15 years.

(2). Renewal contracts should be for 15 years. [This will give a total 30 year period of assistance, making projects eligible for 30-year mortgages.]

However, it would be preferred that a permanent subsidy be attached to these units.

Eliminate the requirement that no project may have over 100 units.

**NATIONAL ALLIANCE TO END HOMELESSNESS
POLICY RECOMMENDATIONS
Shelter Plus Care Program**

Most of the comments relative to the SRO Section 8 Mod Rehab program also have applicability to the SRO component of the Shelter + Care program. However, the following items were also raised.

- The major problem with this program is that it does not know what it wants to be. Is it a permanent housing program or is it a transitional housing program? As people get stabilized and do not need as many services, are they supposed to move out, or can they stay?
- The SRO portion of the Shelter + Care program should be moved to the Section 8 Mod Rehab program with a goal still being the provision of housing to the hardest to reach populations, the dually and triply diagnosed. It makes more sense to concentrate the SRO programs together with slightly different targeting or service requirements.
- There needs to be a mix of types of tenants being served. There should be (*extra points awarded for those projects that are integrated*) an absolute percentage of people with disabilities served in the (proposed) Shelter + Care portion of the Section 8 Mod Rehab program. Concentrating people with disabilities has several drawbacks. First, it does not make for good projects, either from the point of view of management or from the point of view of the tenants. Second, it makes the projects almost impossible to site.
- Shelter + Care is good in that you can serve both families and individuals with the same program.
- Support service dollars should be included in the grant and the match should be flexible (i.e., groups can match whatever they can get local support for). A one-to-one service to housing match is: (1) usually too much service; (2) too hard to obtain; and (3) requires a service program that HUD cannot evaluate, anyway. Make this section more sensible and you will get better proposals.
- HUD needs to revise annual reporting forms for clients. The reporting system now, which documents service delivery, is labor intensive, non-evaluative, and has no value other than creating paper.
- There should be administrative monies for the administration of the grant, as well as for the project.
- The critical part of this program is that it targets the hardest to reach and serve. Despite the changes recommended, this targeting, should be retained.



THE NATIONAL ALLIANCE TO END HOMELESSNESS, INC.

National Alliance To End Homelessness
Alternative Authorization Levels For FY 1995 by McKinney Act Strategies

Recommended Authorization Levels by Program	HUD's McKinney Act Consolidation	Modified McKinney Act Consolidation	McKinney Act Categorical Programs
Homeless Assistance Grants Program	\$1.020 billion	\$537 million	0
Emergency Shelter Grant Program	0	0	\$75 million
Safe Havens	0	0	\$50 million
Rural Homeless Assistance	0	0	\$37 million
Supportive Housing	0	0	\$345 million
Shelter + Care	0	\$278 million	\$278 million
SRO Section 8 Mod Rehab	0	\$205 million	\$205 million
Innovative Homeless Demonstration Program	\$100 million	0	\$30 million (National Competition)
Emergency Food & Shelter Program	\$130 million (operated by HUD)	\$130 million (operated by FEMA)	\$130 million (operated by FEMA)
Total	\$1.25 Billion (HUD)	\$1.120 Billion (HUD) \$130 Million (FEMA)	\$1.120 Billion (HUD) \$130 Million (FEMA)

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BOND
FROM ALBERT C. EISENBERG

Q.1. Condition Federal Assistance on a Housing Discrimination Plan. Mr. Eisenberg, I understand that HUD is developing a regulation which would provide for the Department to withhold Federal assistance, including public housing, CDBG, and HOME assistance, if a jurisdiction fails to develop a HUD-approved plan to combat housing discrimination. Do you support HUD's intention to dictate to communities what constitutes an acceptable plan to combat housing discrimination? Wouldn't withholding HUD assistance, such as public housing, CDBG assistance, and HOME assistance, actually mostly harm the low-income families that HUD needs to assist?

A.1. Housing discrimination is pernicious. Lack of housing opportunity due to discrimination is one of the most important reasons that low-income people cannot obtain decent affordable housing in locations of their choice. To the extent that HUD has the local authority to require, through regulations, that localities prepare a fair housing plan, it is appropriate to establish such a requirement. If it does so, however, clear guidance as to the plan's content, flexibility to craft plans tailored to local experience and conditions, a clear relationship between HUD's requirements and those imposed by the Justice Department, and funding to carry out the plans should all be part of HUD's fair housing plan program. HUD field staff should work closely with localities on the development of their plans. The withholding of housing and community development funds for localities that fail to come up with acceptable plans, under the conditions noted above, does not bother me, if the failure is egregious and localities have been given ample opportunity and technical assistance to accomplish the task. Such withholding authority now exists for other Federal programs in HUD and elsewhere, and it would not be unreasonable under certain circumstances to impose the same sanctions here.

Q.2. Funding for the HOME Program. Mr. Eisenberg, HUD's Budget Request for fiscal year 1995 includes a proposed reduction in HOME program funding from \$1.275 billion in fiscal year 1994 to \$1 billion in fiscal year 1995. HUD's justification for this reduction is that the HOME program spendout rate is too slow and the money can be put to better uses. We would like some insight as to value of the HOME program to your communities and the spendout rate?

A.2. Funding for the HOME program should not be reduced. It is a valuable program. My own community of Arlington County, Virginia, receives about \$750,000 a year from the program. We have used it for home ownership opportunities and for the production of affordable housing. The laws demand for rapid spendout creates some difficulties because the program is dependent on private sector activity, which Government can encourage but not control. The program is opportunity driven. Also, HUD determines that HOME funding has been committed only when a transaction is entered into its computer system, not when a binding contract for use of the funds is completed. HUD's delays in posting the transaction

has created problems for communities in meeting HOME program commitment deadlines.

Q.3. Loan Guarantee Program for the HOME Program. Mr. Eisenberg, HUD is proposing to create a loan guarantee program for the HOME program modeled on the Section 108 Loan Guarantee program for CDBG. Similar to section 108 and the CDBG program, communities would be able to fund HOME projects by borrowing against future HOME funding. Do you support this proposal? How frequently do you think communities would use this loan guarantee program?

A.3. I support this proposed program as another tool for communities to use in improving affordable housing opportunities. It would give communities a means of taking advantage of extraordinary possibilities. My community would probably not use the program because we neither require nor desire to encumber future monies in this way. Because of the encumbrance, I doubt that many will use it, but it should be available for those that want to.

Q.4. LIFT Program. Mr. Eisenberg, HUD is proposing a new \$200 million *discretionary* economic development program called the LIFT program. This program is somewhat questionable because it is getting back to the type of discretionary program that risks becoming a political slush fund instead of a meaningful program. I also am concerned that this program will put a Federal emphasis on economic development; instead, we need to provide localities with economic development tools to solve local problems based on local decisionmaking. Why couldn't the CDBG program be revised to promote economic development as a local decision?

A.4. There is a tension between discretionary programs, established to target funds to communities with the most meritorious applications, and formula programs which distribute the money broadly according to certain general criteria. The former program model can be subject to political abuse. The latter program can be subject to local abuse. The LIFT program, as I understand its purpose, is to provide flexible sums of money for communities with good Empowerment/Enterprise program applications that were not funded. I do not see the LIFT program interfering with local decisionmaking, since the localities can develop their own programs of their own choosing within LIFT program guidelines. The CDBG program could be used to accomplish a similar purpose, but its distribution method may not provide the flexibility to match Federal funds to local program needs, creating an impediment to local problem solving that you hope to avoid.

Q.5. Homeless Block Grant Program. Mr. Eisenberg, HUD is proposing a homeless block grant program as a new continuum of care approach to homelessness. HUD would provide formula funding to States and localities based on the Emergency Shelter Grants program. Nevertheless, it appears that States and localities can be held hostage by local groups since all funding decisions must be made by a local board on which only one member can represent the State or locality. Do you support this proposal?

A.5. State and local governments should have final authority over Federal allocations within their boundaries. Local groups and indi-

viduals, however, should be able to participate in development of plans and decisions for use of the funds according to a robust public participation process.

Q.6. Consolidated Plan. Mr. Eisenberg, HUD is currently drafting a regulation to, in general, consolidate all State and local planning requirements for all HUD programs under a single consolidated plan. It has been suggested that this so-called consolidated plan is actually a subterfuge for HUD to further micromanage how States and localities utilize their Federal housing and community development assistance. Would you care to comment on this suggestion?

A.6. The Consolidated Plan is a means of carrying out statutory requirements in a more organized, intelligent, coordinated, and simplified manner. It is one of the most exciting and promising initiatives that HUD has undertaken to encourage the use of its programs for a locally-based revitalization. Having worked closely with the Department on this effort, the only difficulty I see with it are those that the laws have created, including inconsistencies, gaps, conflicts, and overlaps. For example, the laws establish several citizen participation processes and several strategic plans, which the Consolidated Plan seeks to overcome while adhering to the requirements of Federal law. Current regulations require reams of forms when far fewer would do. Rather than micromanage localities' and States' community development and housing assistance, the consolidated planning initiative will accomplish the opposite, freeing States and communities to decide their own revitalization strategies and activities according to their own needs, resources, and talents.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BOND FROM RICHARD G. GROSE

Q.1. Funding for the HOME Program. Mr. Grose, HUD's Budget Request for fiscal year 1995 includes a proposed reduction in HOME program funding from \$1.275 billion in fiscal year 1994 to \$1 billion in fiscal year 1995. HUD's justification for this reduction is that the HOME program spendout rate is too slow and the money can be put to better uses. We would like some insight as to value of the HOME program to your communities and the spendout rate?

A.1. We have found the HOME funds to be invaluable in our State because of their flexibility and the fact that we, at the State level, make the determination on how best to use and distribute the funds. *We strongly disagree with HUD that the spendout rate is slow and that the money could be put to better use.* The speed at which the 1992 and 1993 funds have been committed has been the most rapid that I have seen in my 27 years of dealing with Federal housing programs. The actual expenditure of the money has, of course, trailed the commitments since under Tenant Based Rental Assistance (TBRA), the moneys are paid out over the life of the lease and under the Rental Production program, the moneys are expended over the construction period. Even under the Downpayment Assistance program, we attempt to structure a year-round

program, maximizing the use of the funds and getting an appropriate distribution throughout the State.

Q.2. Loan Guarantee Program for the HOME Program. Mr. Grose, HUD is proposing to create a loan guarantee program for the HOME program modeled on the Section 108 Loan Guarantee program for CDBG. Similar to section 108 and the CDBG program, communities would be able to fund HOME projects by borrowing against future HOME funding. Do you support this proposal? How frequently do you think communities would use this loan guarantee program?

A.2. While the loan guarantee program for the HOME program may be a useful tool, I expect it will seldom be used in our State.

Q.3. LIFT Program. Mr. Grose, HUD is proposing a new \$200 million discretionary economic development program called the LIFT program. This program is somewhat questionable because it is getting back to the type of discretionary program that risks becoming a political slush fund instead of a meaningful program. I also am concerned that this program will put a Federal emphasis on economic development; instead, we need to provide localities with economic development tools to solve local problems based on local decisionmaking. Why couldn't the CDBG program be revised to promote economic development as a local decision?

A.3. I do not believe there should be another comparably small discretionary economic development program to be operated out of Washington, DC. I believe that the CDBG program as well as the HOME program should be funded at the maximum level and the decision on how best to utilize the funds should be left at the State and local levels.

Q.4. FHA Single Family Mortgage Insurance. Mr. Grose, HUD will be proposing a number of new initiatives under the FHA Single Family Mortgage Insurance program. These proposals include a new no-downpayment program for distressed communities and increased FHA mortgage insurance limits. I am very concerned about the impact of these changes on the actuarial soundness of the Mutual Mortgage Insurance Fund.

In particular, HUD is proposing to increase the FHA Single Family Mortgage Insurance limits for a number of areas, including a high-cost area mortgage insurance increase from \$152,000 to \$172,000. This appears to be a refocusing of the FHA Single Family Mortgage Insurance program away from its traditional mission of serving low- and moderate-income homebuyers. There seems to be some risk that realtors and mortgage bankers will cater to only the high end of the market and ignore low-income homebuyers. Would you agree with this analysis?

I also would like your analysis of whether increased FHA mortgage insurance limits are needed in Missouri. In other words, is private mortgage insurance not working and, if so, why? If FHA mortgage insurance limits need to be increased, can you supply an actuarial analysis as to the increased risk to the Mutual Mortgage Insurance Fund or at least an analysis of the default risk under FHA as opposed to private mortgage insurance?

A.4. I believe that an increase in the FHA mortgage insurance limits is needed in Missouri. Our particular problem has not been with the maximum ceiling, but with the floor. In many of our rural communities, the current floor is below the cost of building even a modest home. I believe that the floor should be higher than what is currently being proposed by the Senate. In many of the housing markets in our State, without adequate FHA insurance many potential homebuyers would be precluded from securing financing. The private mortgage insurance works very well for newer homes in major markets, but often falls short in rural areas, central city areas, and for older homes.

Our experience with the Mortgage Revenue Bond program, which furnishes financing to first-time homebuyers with an average income of about 76 percent of median income, has enjoyed good support and use from the realtors and mortgage bankers; therefore, it is my belief that raising the mortgage insurance limits would not cause the realtors and mortgage bankers to desert this market.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BOND FROM RICARDO DIAZ

Q.1. Loan Program for the Public Housing Modernization Program. HUD is proposing a new direct loan program for public housing modernization, including demolition and replacement housing. The loan would be paid from future modernization funding. This program seems to run the risk of draining the future availability of modernization funding, even though there will likely be very necessary rehabilitation. Do you support this proposal? Would you support this proposal if we require the local community to contribute a match of funding (say 25 percent) or guarantee some portion of the loan amount?

How would a PHA which has obligated its current modernization funding under this proposal deal with a real emergency, such as the discovery of a substantial lead-based paint hazard in a large number of units?

A.1. The Council of Large Public Housing Authorities (CLPHA) supports the principle of providing flexibility to PHA's. The problem is that most PHA's do not have access to sufficient funds to dramatically improve public housing that is too dense, too distressed, or poorly designed. Leveraging of public housing funds should be an option available to PHA's to improve public housing as long as PHA's who choose not to participate are not penalized.

In the simplest terms, the PHA's who wish to borrow funds to accelerate modernization and replacement believe they could enter such arrangements if they were permitted to pledge their anticipated modernization funds as security, and as a source of current payment, for such loans.

CLPHA supports a demonstration permitting up to ten PHA's to pledge operating funds, future modernization allocations, and other available resources to finance the modernization and replacement of public housing. The demonstration must be designed to ensure equity and prevent any costs being carried by non-participating PHA's now or in the future. The amount of modernization funds that could be committed to debt service should not exceed half of a PHA's current annual modernization allocation from HUD. Bor-

rowing should be allowed if the cost of doing either replacement or modernization for a large public housing project is not feasible within the PHA's total annual modernization grant. A PHA could participate in such a borrowing program if it could demonstrate a strong local management capability or if it establishes an alternative, highly qualified entity at the local level with separate authority to administer this program. Strict limitations on guarantees and matching requirements will limit the usefulness of this technique. The use of local guarantees or other forms of credit enhancement should be determined at the local level.

In the event of an emergency, the PHA has the ability to reprogram modernization funds to address the problem. If the use of modernization funds for borrowing is limited to 50 percent of the PHA's current annual allocation, modernization funds would still be available for routine modernization and emergencies. HUD is also required to reserve funds for emergencies. PHA's are eligible to apply for money from HUD's \$75 million emergency fund. Most PHA's are currently testing for lead-based paint and including abatement and control measures in their comprehensive plans.

Q.2. Elderly Public Housing Designation. Milwaukee Public Housing has had a number of significant problems in the past with the locating of young disabled tenants, including drug addicts and alcoholics, and elderly tenants in the same public housing developments. HUD recently published a final rule which allows the designation of elderly only public housing under certain circumstances. Can this rule be implemented easily and is it a practical response to the mixed population issue? Will this rule be especially hard for some PHA's to implement? Do you recommend any additional legislation to address the mixed population issue?

A.2. PHA's need a great deal of flexibility to develop workable solutions that address unique situations and local conditions. The current legislation may not be the answer for every PHA. It may be very difficult for some PHA's to implement, especially if they have few vacancies or a limited mix of housing. HUD has done a reasonably good job in the final regulations it eventually developed. However, the legislation itself needs to provide more flexibility to PHA's. CLPHA would be glad to work with the Committee on this.

Milwaukee has 14 "elderly" buildings and we can accommodate both populations. There has been an increase in both our occupancy rate and the number of referrals for housing after we submitted our allocation plan to HUD. In particular, low-income elderly have expressed more interest in living in our public housing as a result of our plan.

Legislation is not the entire solution to the problem of mixed populations. In addition, PHA's need a strong marketing program, trust from the community, ability to screen applicants, and secure, commodious, well-lit developments. Success in dealing with these populations will depend on the availability of service coordinators. We understand that HUD is in the process of issuing a NOFA for funding of these service coordinators.

Q.3. Public Housing Reforms—Income Disallowance. HUD is proposing a number of reforms to the public housing program, including making the program more flexible and allowing a better in-

come mix. In particular, HUD is proposing an employment incentive by removing for 18 months new employment income from the tenant rent calculation. How important are these rent reforms to making public housing a better place to live?

HUD is also proposing making modernization funding available for construction under certain circumstances. Do you support this proposal?

Over the years there has not been enough development money for the replacement of public housing units that have become uninhabitable. Do you support any changes to the one-for-one hard unit requirement that PHA's replace demolished units with additional units of public housing?

A.3. Disallowance of Earned Income. The HUD rent reforms are essential and will complement many of the welfare reform proposals. These rent reforms will help many PHA's, including Milwaukee, attract and keep working families in public housing. CLPHA strongly supported the additional deductions authorized by the 1990 Act and recommends that they be funded by Congress. CLPHA supports the additional rent reforms proposed in the 1994 legislation if they are actually funded by Congress, because they would provide some additional relief to working households, but *not if they are unfunded mandates that would reduce rental income to the PHA's without compensating increases in operating subsidies*. Although these changes would indeed be beneficial to some households, a variety of other "reforms" are also needed in the welfare and Medicaid systems, that would enable low-income people to go to work without losing all of their AFDC, food stamps, and medical benefits at the same time.

Modernization for Replacement. Again, it is important to provide PHA's with the flexibility to develop workable solutions to their unique circumstances. The main concern that we have with this proposal is that modernization money not become the sole, or primary funding source, for development of public housing. There needs to be more funding for development, so that modernization dollars are not diverted from their intended purpose of funding physical and management improvements needed to upgrade existing public housing. We are particularly concerned about this HUD proposal because it was made when HUD was proposing deep cuts in both modernization and development funding.

CLPHA supports allowing PHA's to use Section 8 certificates for up to one-third of replacement units in HOPE IV. We believe in providing much more flexible replacements in all cases where the demolished buildings have had long-term vacancies.

Q.4. COMPAC. HUD is proposing a broad new public housing anti-crime initiative called COMPAC which will take the place of the existing Public Housing Drug Elimination program. It will be funded at some \$260 million for fiscal year 1995. Are there any other steps the Federal Government should be taking to address the crisis of crime in and around public housing?

I understand that Chicago Public Housing, with HUD's approval, is requiring tenants to sign leases allowing PHA management to conduct unannounced searches and seizures for drugs and other il-

legal activities. Do you support this approach? Do you think it will be effective?

A.4. Everyone is concerned about the crisis of crime, not only in and around public housing, but within our entire society. The Public Housing Drug Elimination program has, and should continue to provide funds directly to PHA's to complement and supplement local efforts to reduce crime in and around public housing.

The Chicago Housing Authority initiative is in response to their local circumstances but the situation is different in each locality. These are not the types of initiatives that Milwaukee would pursue at this time; however, we also want Chicago, and other PHA's, to have the latitude to develop and implement initiatives that will work for them and withstand legal challenges. Chicago has a strong relationship with the residents, who are supportive of these activities. The success of these initiatives really depends on the support from the residents.

The PHDEP/COMPAC programs are intended to provide funding to PHA's for activities that would not be allowable in their routine operating budgets. PHA's also need increased funding within their operating budgets for a variety of activities that are related to the crime in public housing. This includes the increased costs of maintenance, lease enforcement, and applicant screening. There should be a recasting of operating subsidies to cover such costs as proposed in H.R. 3838.

Other measures are needed to address crime in addition to law enforcement. Encouraging and preserving two-parent families in all assistance programs should be a priority. Demolition and lower density replacement housing should be considered for the largest, most crime-ridden developments. Local institutions such as schools and recreation programs should be supported. Other important components are quality job training programs, higher education opportunities, drug treatment facilities, and drug prevention programs.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BOND FROM F. BARTON HARVEY, III

Q.1. Funding for the HOME Program. Mr. Harvey, HUD's Budget Request for fiscal year 1995 includes a proposed reduction in HOME program funding from \$1.275 billion in fiscal year 1994 to \$1 billion in fiscal year 1995. HUD's justification for this reduction is that the HOME program spendout rate is too slow and the money can be put to better uses. We would like some insight as to the value of the HOME program to communities and the spendout rate.

A.1. HOME is a wonderful tool for community-based nonprofits. The anecdotal evidence that Enterprise sees in its work is confirmed by HUD's own figures which show that HOME exceeds the targeting requirements in the statute. As of June 30, 49.3 percent of the occupied rental units built with HOME served families below 30 percent of median income; 24.2 percent of the home ownership units went to families in this income category. In addition, the 15 percent nonprofit setaside in the statute has also been exceeded, with 20 percent of the funds being spent on housing developed by nonprofits.

We believe that HUD's decision to propose a cut in the funding for the HOME program is unfortunate. After a rough start-up phase, the HOME program has just begun to reach its full potential. As of June 30, there were only eight States that had less than an 80 percent commitment rate on their 1992 HOME funds, using HUD's old definition of commitment.

As you know, HUD has revised the way commitment is defined so that when a participating jurisdiction signs a binding contract on a HOME development, the money will be considered committed. HUD's management information system does not yet reflect this new regulatory policy, so the actual commitment rates are higher than the figure cited above. This is confirmed by the fact that HUD is using the new definition of commitment in making determinations about recapturing fiscal year 1992 HOME funds and has yet to recapture any HOME funding from participating jurisdictions.

Secretary Cisneros and his staff and the Congress have done a good job unleashing the potential of the HOME program. The recent HOME legislative changes were constructive and HUD has done a good job cleaning up the regulations. It doesn't make sense to cut HOME's funding now that the program is finally on track.

Q.2. Consolidated Plan. Mr. Harvey, HUD is currently drafting a regulation to, in general, consolidate all State and local planning requirements for all HUD programs under a single consolidated plan. It has been suggested that this so-called consolidated plan is actually a subterfuge for HUD to further micromanage how States and localities utilize their Federal housing and community development assistance. Would you care to comment on this suggestion?

A.2. Enterprise sees a great deal of potential in the consolidated plan. Currently, nonprofits and community groups have to try to get involved with a separate and fragmented planning process in order to influence local decisions on housing and community development. A streamlined process with strong citizen participation provisions offers enormous potential benefits for neighborhood groups. It obviously would be a mistake if the consolidated plan were an excuse for HUD micromanagement of local decisionmaking, but we don't see evidence that this is HUD's intention.

The consolidated plan offers local governments the ability to do the kind of comprehensive and holistic planning that the city of Baltimore and The Enterprise Foundation have done in the Sandtown-Winchester neighborhood. The only way that the complex and interlocking series of problems that bedevil poor neighborhoods can be solved is if they are addressed as an integrated whole. Breaking the problems of poverty into narrow categories for the purposes of qualifying for Federal funding doesn't make any sense. Federal policy should encourage local governments to think holistically rather than narrowly, and the consolidated plan is a good step in this direction.

Q.3. LIFT Program. Mr. Harvey, HUD is proposing a new \$200 billion *discretionary* economic development program called the LIFT program. This program is somewhat questionable because it is getting back to the type of discretionary program that risks becoming a political slush fund instead of a meaningful program. I am also concerned that this program will put a Federal emphasis

on economic development; instead, we need to provide localities with economic development tools to solve local problems based on local decisionmaking. Why couldn't the CDBG program be revised to promote economic development as a local decision?

A.3. There is a balancing act in policymaking at the Federal level between devolving all decisionmaking to the local level and preserving some ability for the Federal Government to influence outcomes. There are different situations which call for different actors to make the decision. With housing and community development programs, the bulk of the funding allocated is spent by State and local governments on priorities that they determine. The HUD proposals do not fundamentally alter this balance, but they give the Federal Government an additional tool to use. LIFT gives the Federal Government some additional authority on the margin, but does not take away local governments' fundamental responsibility to spend the CDBG and HOME funds on worthy local projects. The funding for LIFT is far smaller than the \$5.675 billion appropriated for the HOME and CDBG programs last year. It is appropriate to give HUD this additional authority on the margin without disturbing the structure to the traditional programs.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BOND FROM CUSHING N. DOLBEARE

Q.1. FHA Single Family Mortgage Insurance. Ms. Dolbeare, HUD will be proposing a number of new initiatives under the FHA Single Family Mortgage Insurance program. These proposals include a new no-downpayment program for distressed communities and increased FHA mortgage insurance limits. I am very concerned about the impact of these changes on the actuarial soundness of the Mutual Mortgage Insurance Fund.

In particular, HUD is proposing to increase the FHA Single Family Mortgage Insurance limits for a number of areas, including a high-cost area mortgage insurance increase from \$152,000 to \$172,000. This appears to be a refocusing of the FHA Single Family Mortgage Insurance program away from its traditional mission of serving low- and moderate-income homebuyers. There seems to be some risk that realtors and mortgage bankers will cater to only the high end of the market and ignore low-income homebuyers. Would you agree with this analysis?

I am also concerned about the new FHA no-downpayment program for certain distressed communities. This is likely to result in very high loan-to-value ratios, leaving a homebuyer with very little stake in his or her property. Would you agree that this could result in high default rates which could leave HUD, as a practical matter, owning entire neighborhoods?

A.1. First, I would like to note that this response reflects my personal judgment on these matters, as the National Low-Income Housing Coalition has taken no organizational position on their merits.

The two proposals are interrelated. The increase in mortgage insurance limits will help make the program more financially self-sufficient, as a result of the larger premiums associated with these somewhat higher-priced homes, while the no-downpayment proposal will increase some risks. The proposed new limits will still

leave FHA serving the lower end of the mortgage market, even though the boundaries will have changed.

The success of the no-downpayment proposal, if enacted, will, in my view, depend less on the consequences of eliminating the downpayment and more on the care which FHA and investing institutions exercise and the links which are made with adequate counseling programs.

I have long been committed to broadening opportunities for low- and very-low-income home ownership. It can be argued that past problems with FHA have been related primarily to the inadequate oversight which FHA and lenders have provided on the quality of the housing which was financed, not to an effort to serve lower-income buyers.

There is considerable evidence that loans to "marginal" households which enable them to obtain value for their commitment are a sound investment. For example, a study by the Housing Assistance Council several years ago found that very-low-income borrowers under the FHA 502 program had somewhat *better* repayment records than other borrowers. Similarly, a study by the *Woodstock Institute* in Chicago, IL, of the performance of loans made possible through special lending mechanisms and the CRA found no difference in the default rate between "market-type" loans and special lending programs like the one proposed by FHA. One of the principal reasons for this was the holistic approach to CRA lending involving a supportive environment created by participating non-profit organizations.

An important part of the high success of CRA lending—which has been instrumental in leveraging as much as \$35 billion in lending to low-income communities—has been due to the high level of participation by community-based organizations in the design and implementation of such programs. Adequate counseling and continued participation by such community-based institutions should be linked to this FHA proposal.

Q.2. Consolidated Plan. Ms. Dolbeare, HUD is currently drafting a regulation to, in general, consolidate all State and local planning requirements for all HUD programs under a single consolidated plan. It has been suggested that this so-called consolidated plan is actually a subterfuge for HUD to further micromanage how States and localities utilize their Federal housing and community development assistance. Would you care to comment on this suggestion?

A.2. The National Low-Income Housing Coalition has been opposed to the proposed consolidation since it was first broached by HUD. Our key concerns are described in the attached "Consolidated Plan Agenda." While we recognize the need to integrate housing with other planning activities and the value of putting major HUD submissions on the same timetable, we believe that HUD is moving far too rapidly with major changes, and that it is a major mistake to propose what amounts to a completely new approach, rather than building on the developing experience with the CHAS.

Far from "micromanaging," however, our fear is that HUD will exercise little or no responsibility to see that Federal funds are used as intended by Congress in enacting the legislation. HUD's approach, as articulated in a series of discussions which we have

had with the Department, has, however, been focused on removing or relaxing many of the regulatory requirements adopted by the last Administration—to the point where we fear that low-income targeting goals of the National Affordable Housing Act will be seriously undermined.

One of the guiding principles governing the consolidation has been the adherence to “minimum statutory standards” in the drafting of the proposed guidelines. Many of the specific standards and data requirements wisely introduced in regulations promulgated by the Bush Administration are now in serious jeopardy. As we understand HUD’s intention, the only way in which a State or local jurisdiction might experience a heightened review of its consolidated plans would be through a spontaneous action by a HUD field office.

The National Low-Income Housing Coalition urges that HUD’s consolidation initiative not proceed without more careful review of existing guidelines and their implementation and a more reasoned public discussion of the merits and risks of HUD’s proposed “minimum standards approach.” Importantly, this policy should only be implemented after a reasonable period of transition.

The documents we have seen on the proposed consolidation do not provide adequate guidance to States and local jurisdictions or to HUD field staff in terms of what is expected in the consolidated submission. We fear that the minimalist regulatory framework being pursued by HUD will create significant confusion and the uneven application of the consolidation policy. Some local jurisdictions have already prepared early drafts of their consolidated plans, and these documents confirm our worst fears. In one city, for example, the draft consolidated plan, which we understand has now been submitted to HUD, does not consider the needs of homeless people and does not propose any housing assistance to households with incomes below 30 percent of median, although these households have the most acute housing needs.

Although the draft guidelines state that “the purpose of consolidation is to encourage the most effective use of Federal dollars,” the guidelines actually eliminate important requirements to link needs, priorities, programs, and expenditures through a detailed needs analysis. Furthermore, the guidelines fail to delineate any standards against which a jurisdiction’s submission will be measured. Thus, HUD has not demonstrated its intent to require quality submissions from local jurisdictions through enforcement of its guidelines. The present attempt to consolidate the State and local planning requirements has so reduced the guidance for the plans that they will fail to contain sufficient information to guide the implementation of effective programs. Therefore, the plan will promote neither the better use of Federal funds nor community resources.

In this time of budgetary austerity, Congress and HUD should be seeking ways to ensure that Federal resources, such as HOME and CDBG, address critical needs. We believe this means stronger enforcement of the planning function of the CHAS, especially the statutory requirement that the priorities for use of Federal funds be related to the housing needs contained in the analysis. Overall, we urge the Department and Congress to find ways to encourage a stronger relationship in local plans between a community’s needs

and how its State or local government spends Federal funds. In our view, one of the best ways to accomplish this is to require that the Consolidated Plan, if it is instituted, has enough information in it to provide for effective citizen participation as well as review by HUD and to make it difficult to find non-priority needs.

NLIHC's Current Consolidated Plan Agenda

I. SOME UP-FRONT ISSUES

The CHAS has intrinsic value as a discrete "housing plan."

Congress' intent with NAHA was to increase the flow of Federal resources to low-income housing. With the implementation of the HOME program, some jurisdictions have used HOME to replace pre-existing local and CDBG resources that formerly went to housing. The consolidation of HOME with CDBG plans and submissions will further encourage this tendency: HOME will be used for housing, CDBG, for non-housing.

The principal need is for stronger enforcement of the existing CHAS statute and regulations.

We concur that the CHAS has in large part failed to accomplish all of its goals as a plan for local low-income housing needs. It is our view that one of the reasons for this is the lack of enforcement of existing statutes and regulations. The Consolidated Plan completely fails to address the Department's role in the ensuring of a meaningful planning process. Nowhere is there any attempt to delineate any standards against which a jurisdiction's submission will be measured. This failure will make it extremely difficult, if not legally impossible, for the Department to enforce standards should it eventually choose to develop them.

Concerning enforcement of the consolidated submission, HUD has said, "plans will be rejected only if they are inconsistent with the statute, or substantially incomplete." HUD has given a very clear message that enforcement won't be a big emphasis in the ConPlan.

The consolidation initiative itself has moved too rapidly to allow for consultation and effective input from the grass-roots into an initiative of such magnitude.

In conversations with activists, advocates, and practitioners from around the country, there is a common perception that the consolidation initiative has proceeded too rapidly. Furthermore, there is broad questioning about whether HUD has the authority to consolidate the various statutory submissions without the consent of Congress. The usual time at which local jurisdictions normally begin their planning has passed. The failure to reach common ground on the content and nature of the consolidation should postpone its implementation until at least fiscal year 1996.

II. CITIZEN PARTICIPATION

Citizen participation will be more complex in a consolidated format.

There is no question that effective citizen participation is one of the best ways to ensure that local planning submissions are of high quality. For the first time in recent memory, resources to promote

citizen participation and neighborhood organizing are a priority of HUD. However, a consolidated planning process will throw together a broad variety of constituencies at the local level.

There is need for clear guidance to local jurisdictions regarding statutory and regulatory requirements for citizen participation; To make citizen participation effective, and to make it more than a pro-forma exercise of statutory minimums, there need to be stronger citizen appeal procedures.

Existing regulations do not go far enough to ensure meaningful citizen participation. For example, current regulations require that a jurisdiction summarize and respond to written citizen comments on the CHAS. However, there is no provision for situations in which the jurisdiction either fails to summarize or respond to citizen complaints. The effect is to create a process that is empty of meaningful citizen participation. The summary and response to criticism of the proposed housing strategy must be weighed against the magnitude of that criticism and the Federal priorities at stake in the plan. The power to summarize criticism is an important aspect of local decisionmaking. However, there must also be adequate safeguards to ensure that this power is not abused. Without these safeguards, the legal requirement to accept and respond to citizen comments becomes meaningless. The law currently requires the HUD Secretary to establish procedures for the resolution of citizen complaints.¹ However, HUD has so far skirted this responsibility: Current regulations require only that States respond either orally or in writing within a given period of time; there is no mechanism for an appeal for review or resolution of these complaints.² Without such a review, the power to comment on the proposed CHAS will remain limited.

The Consolidated Plan has eliminated all the guidelines existing in the current CHAS which provided minimum standards for compliance with the statutory requirements for citizen participation. For example, the Consolidated Plan has deleted the current CHAS requirements that jurisdictions had to "make reasonable efforts to inform interested groups," that the "needs" document had to be developed after the needs public hearing, that the hearing regarding needs had to be held 30 days prior to a "proposed" document being prepared, that the proposed document had to be available at public places, such as libraries, and that people be given 30 days to examine the proposed document and submit comments. The requirements that have been deleted—minimum notice, opportunity to review and comment—are simply minimum procedures that would be necessary for any reasonable public hearing process.

III. THE CONTENT OF THE CHAS

The submission must provide a comprehensive presentation and analysis of housing needs data for very-low-income people.

The CHAS must provide sufficient information so that citizens can make informed decisions about its content and quality. At a minimum this means that the CHAS must present its analysis in

¹Sec. 107(d).

²24 CFR 91 (§91.65).

a clear and accessible way. The current tables are necessary but not sufficient in this regard. The needs analysis, the most useful element of the current CHAS, is rendered ineffective in the Consolidated Plan.

One of the most useful elements of the current CHAS was the combined narrative, tabular presentation of needs data. That data compilation and analysis has not been consolidated, improved, or rendered more understandable in the Consolidated Plan. Instead, most of the truly useful elements have been eliminated. For example, the Consolidated Plan does not require any quantitative presentation of needs, either in narrative or tabular form similar to the current CHAS Table 1C. Only a "concise statement" is required by way of narrative. CHAS Table 1C, possibly the most useful single table for building a targeted housing strategy, is simply eliminated with nothing similar to replace it.

Additionally, much of the most useful data contained within the current CHAS Table 1C no longer is required. No longer do jurisdictions have to consider "worst case housing needs" since consideration of the elements of "worst case housing needs," i.e., "cost burden" (people paying over 30 percent of 50 percent of their income for shelter), "housing overcrowding," and "substandard" housing conditions, is no longer required. Nor are jurisdictions required to state which particular groups (elderly, large families, etc.) suffer most from each type of housing need.

The Consolidated Plan also deletes the current CHAS requirement that jurisdictions identify the racial groups that are experiencing particular housing problems or are suffering from homelessness disproportionately to others in the jurisdiction. Likewise, the Consolidated Plan no longer requires any analysis of the characteristics of people who are threatened with homelessness, particularly those whose incomes are below 30 percent of the areawide median income. The analysis of the special needs population has similarly been dropped, as has virtually all discussion of Market Conditions and a long list of other items.

The CHAS/Consolidated Plan document is all that 99 percent of the Nation's residents will ever see regarding CDBG, HOME, ESG, and local housing policy. They do not have the time or ability to independently seek out information on community needs. This proposed Consolidated Plan largely eliminates their only access to that information, gathered and organized in a meaningful way. Without it, all but the most assured of these citizens are at the mercy of local housing and planning bureaucrats.

This lack of comprehensive needs data also undercuts the possibility of developing a local plan in which the prioritization, the program development, and implementation is linked to the actual needs analysis. If the detailed needs analysis is eliminated, it is virtually impossible to effectively develop or analyze that linkage. Similarly, our shared goal that the most needy, minority communities not be denied their fair share of Federal housing and community development funds is rendered meaningless when the data which would permit meaningful analysis and debate is not available.

The 1992 Housing and Community Development Act requires a link between the needs, priorities, and strategies in

the CHAS; the Consolidated Plan minimizes this requirement.

The Consolidated Plan virtually eliminates all but the most general language requiring that the Plan's priorities, program, and expenditures flow from the needs analysis. For example, section 91.19(b) of the current CHAS Regulations states: "The jurisdiction shall establish its general priorities for allocating Federal, State, and local governmental resources reasonably expected to be available, as well as any identified private resources over the next 5-year period, geographically within the jurisdiction, among different activity types appropriate for meeting identified needs, and among different categories of low-income families with needs for housing and supportive housing assistance. . . . This identification will include the type and size of family to be served and the types of activities to be undertaken. . . . It must discuss the basis for assigning the relative priority given to a particular group's needs. . . . The rationale for establishing the priorities and determining the relative numerical assignment of priorities should flow logically from the analysis. . . ." The Consolidated Plan has reduced that entire analysis to the following general statement: "The jurisdiction must describe its reasons for allocation priorities and the connection between needs, activities, and the use of funds. The jurisdiction must set forth its plan for investing its available housing resources, indicating the general priorities for allocating investment geographically within the jurisdiction and among different activities and housing needs."

In our view, the Consolidated Plan fails to show the Congressional intent that there be a close relationship between the needs, priorities, and strategies in the submission.

The Consolidated Plan must integrate Fair Housing, anti-poverty, and homelessness prevention strategies with its housing resources.

Current versions of the consolidated submission guidelines contain the glaring omission of important Fair Housing, Homelessness, and anti-poverty analysis and activities for remediation. The failure to include these fundamental goals will limit the Administration's ability to achieve its fair housing goals and needlessly limits the intended coordinating function of the submission.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BOND FROM SANDY BEDDOR

Q.1.A. Homeless Block Grant Program. Ms. Beddor, HUD is proposing a homeless block grant program as a new continuum of care approach to homelessness. HUD would provide formula funding to States and localities based on the Emergency Shelter Grants program. Nevertheless, it appears that States and localities can be held hostage by local groups since all funding decisions must be made by a local board on which only one member can represent the State or locality. Would this block grant approach still be acceptable if we allowed more control of the program by the State or locality.

A.1.A. In the view of the National Alliance to End Homelessness, the presence of an effective local board is critical to the success of

the block grant program. It is, after all, nonprofit service and housing providers who have assisted homeless people over the past 10 years—often under opposition from local governments more concerned about giving homeless people bus tickets out of their cities than about finding them a place to live.

Having said this, the Alliance recognizes that the funding for the block grant is going to States and localities, and that it is States and localities that have the fiscal responsibility for the grant funds. Working with national organizations that represent the public sector entities that will bear this responsibility, the Alliance has agreed to a compromise that all groups feel will elicit the necessary input from nonprofits while neither holding the process hostage nor jeopardizing sound fiscal procedures.

Essentially, this compromise is: The CEO of the State or locality would appoint the local board; at least 51 percent of the local board would be made up of representatives of the homeless, homeless advocates, or organizations serving the homeless; nominations for this 51 percent of the board positions would have to come from those same individuals and groups; the remaining board members could come from the public sector, business, the community etc. (with no other limit on the number of representatives of the State or locality). Additionally, it was agreed that while the board would have to sign off on applications, etc., final approval would have to lie with the government that bears the fiscal responsibility. And, if there was an existing board that substantially met these requirements, the State or locality could request a waiver in favor of using this existing board.

We believe that this structure would ensure good participation by the nonprofits that are best suited to design the comprehensive approach anticipated by this program, while at the same time protecting the necessary rights of State and local governments to govern.

Q.1.B. What is the risk of this new block grant program in institutionalizing homelessness as a program?

A.1.B. We do not believe that the new block grant program represents any more a risk of becoming institutionalized than any other homeless program.

Q.1.C. What is the minimum amount needed in funding to make this block grant program successful?

A.1.C. If all current HUD McKinney activities, including the permanent housing activities, become eligible activities of the block grant, \$1.02 billion is needed. If the SRO program is held out, approximately \$800 million is needed.

Q.2. Innovative Homeless Initiative Demonstration. Ms. Beddor, the Innovative Homeless Initiative Demonstration was established in the HUD Demonstration Act of 1994 and funded at \$100 million for fiscal year 1994. How successful is this program? Do you know how the funding has been spent?

A.2. For the most part, I believe that HUD is still in the process of implementing the Homeless Initiative Demonstration. Washington, DC was the first Initiative city, and is about to receive its first check. While the funds have not yet been spent in DC, the Alliance believes that the process of developing the required comprehensive

plan has been helpful in bringing all sectors of the city together. Los Angeles and Denver have also been designated Initiative cities. Again, although no funds have yet been received, the process of planning and coordinating that is required to apply for Initiative funds is useful, and we believe that this will be the case in all cities that participate.

Twenty-five million dollars of the funds were disbursed this winter for emergency assistance, and we believe that this was done very efficiently and to good effect. It should be noted, however, that many excellent applications were denied because of lack of funds.

Q.3. FEMA Food and Shelter Program. Ms. Beddor, the HUD Budget proposes transferring the FEMA Food and Shelter Program from FEMA to HUD. I am opposed to transferring this program, especially since this is a very effective program at FEMA with only 3 percent administrative costs. Would you support leaving this program in FEMA?

A.3. The National Alliance to End Homelessness strongly supports leaving the Emergency Food and Shelter Program at FEMA.



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